

6/4/77 [2]

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THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat
Bert Lance
Charlie Schultze

Re: Reform of OSHA

The attached was returned in the President's outbox and is forwarded to you for your information and appropriate action.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

ACTION
FYI

<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input checked="" type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input type="checkbox"/>	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HOYT
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input checked="" type="checkbox"/>	LANCE
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input checked="" type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 27, 1977

MEMORANDUM TO THE PRESIDENT

FROM: Charles L. Schultze, Chairman *CLS*
Council of Economic Advisers

Stu Eizenstat, Assistant to the *Stu*
President for Domestic Affairs and Policy

Bert Lance, Director
Office of Management and Budget *PLA-*

SUBJECT: Reform of OSHA

The regulatory reform working group, the reorganization task force, and OMB in its initial work on zero-based budgeting have all identified OSHA as an agency where major changes might be in order. Specifically, there is a need to go farther than the steps announced in the May 19 news conference of Secretary Marshall and Assistant Secretary Bingham. Among other issues serious consideration should be given to totally eliminating most safety regulations and replacing them with some form of economic incentives (for example, an improved workman's compensation program, or economic penalties tied to the injury rate), thereby redirecting OSHA resources to regulating health problems and coverage of emergencies. These are very controversial issues on which various groups have already taken positions. Some business groups would like simple abolition; organized labor wants more detailed safety standards backed up by an enlarged crew of inspectors. OSHA reform is more than an internal matter for the Department of Labor for the following reasons:

- Reform of OSHA is part of your overall regulatory reform effort, offers a chance to explore the use of economic incentives, and will be a first cut at issues which will recur in reviewing other social regulatory agencies (EPA, NHTSA, etc.) and hence regulatory reform staffs should be involved;

**Electrostatic Copy Made
for Preservation Purposes**

-2-

- ° Social regulations have pervasive impact on the economy, and those concerned with economic policy and your anti-inflation program should be involved;
- ° OSHA affects many constituencies--not just labor but also business groups, public interest groups, and the like--and these groups should perceive that the composition of the reform effort reflects their concerns.

Therefore, we recommend that in your budget preview meeting with Secretary Marshall on June 6 you suggest a study of OSHA reform be conducted by an interagency group chaired jointly by Secretary Marshall and Director Lance, with participation by their agencies, the Department of Commerce, CEA, and the Domestic Council, to report back with recommendations no later than March 1978. The OMB issue paper on OSHA is attached.

Because the prior administration was perceived as hostile to the goals of health and safety regulation, organized labor has tended to be suspicious of proposals to "reform" OSHA. Hence, creation of an interagency task force on this issue could trigger some labor concern. However, OSHA is, as you know, the leading national symbol of overregulation; not to act decisively would be perceived outside the labor movement as a retreat from your commitment to major regulatory reform. To minimize labor concerns, you should make clear to Secretary Marshall and to the public that the aim of regulatory reform at OSHA will be to get more effective health and safety protection, at less cost to the government and the private sector.

Attachment

1979 BUDGET
SPRING PRESIDENTIAL REVIEW
Department of Labor
Issue #3: Occupational Safety and Health

Statement of Issue

Should the Labor Department be asked to work with an interagency group to study alternative ways to prevent workplace injuries, illnesses, and deaths?

Background

The OSH Act requires, and most of the Occupational Safety and Health Administration (OSHA) budget is used for setting and enforcing standards that specify in detail what is safe. Most enforcement is conducted through on-site inspections of workplaces. Recently announced plans to shift enforcement priorities, review and revise safety standards, and issue more health standards do not change this major emphasis. Many students of occupational safety and health believe it is not possible to have engineering or process oriented Federal safety standards that are current and detailed enough, and enough inspectors who are sufficiently knowledgeable, to significantly affect injury rates. They also fear that such detailed standards will inhibit technological improvements. They believe that other approaches could better improve health and safety at less total cost to the economy. Among the possibilities suggested are:

- (a) encouraging more employer self-regulation;
- (b) emphasis on information, consultation, and training rather than coercion;
- (c) greater reliance on intermediate performance standards defining the risk-free situation (e.g., ten parts per million of a toxic chemical in the air of a workplace) rather than detailed engineering standards which specify how the risk is to be removed (e.g., specifying a particular process or device that assures that workers will not be exposed to more than ten parts per million of a toxic chemical in the air of a workplace);

- (d) encouraging more State activity as an alternative to Federal enforcement; and
- (e) eliminating the need for OSHA to set any safety standards by imposing civil penalties on employers for worker injuries, and leaving the details of how to produce safety to employers and workers. (This is not feasible for health problems.)

A study of these and other possibilities could help design the optimum system for assuring the health and safety of the worker. Such a study should be completed by March 31, 1978, in order to provide data for next years' spring review.

Alternatives

#1. Labor Department study.

#2. Interagency study.

- (a) Co-chaired by Secretary Marshall and Director Lance with participation of Commerce, CEA, and the Domestic Policy staff.
- (b) Co-chaired by Secretaries Marshall and Kreps, with CEA, OMB and the Domestic Policy staff participating.
- (c) Co-chaired by Secretary Marshall and the Vice President, with CEA, OMB, Domestic Policy staff and the Commerce Department participating.

Analysis

The issue is how to get full consideration and good analysis of all alternatives. The possible different approaches are very controversial. Organized labor is convinced that detailed standards and inspections are the only way to assure workplace health and safety, and that States have shown they cannot do the job. Many business interests wish no government involvement whatever. An interagency study of alternative approaches would help assure that the views of all interests (labor, business, general public) are available for consideration. In addition, the experience of such a joint study (rather than a single-agency study) could be more easily transferred to studies of other

regulatory programs. Secretary Marshall, having responsibility for the present law, must co-chair the study. Who should co-chair with him is a close choice between Director Lance, in order to assure transferability of experience to other regulatory studies, and Secretary Kreps, in order to assure obtaining all relevant viewpoints.

THE WHITE HOUSE
WASHINGTON

June 3, 1977

The Vice President
Frank Moore
Jack Watson
Landon Butler

The attached is forwarded to you
for your information.

Rick Hutcheson

Re: Refrom of OSHA

THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat -

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the President's outbox. It is
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handling.**

Rick Hutcheson

Re: Coal Slurry Pipeline:
Certification Jurisdiction

THE WHITE HOUSE
WASHINGTON

Mr. President:

Jack Watson concurs with
the attached recommendations
from Stu.

Rick

THE WHITE HOUSE
WASHINGTON

June 1, 1977

C

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT

Stu

SUBJECT:

Coal Slurry Pipeline:
Certification Jurisdiction

Background

In response to previous memos on coal slurry pipeline you indicated support for enabling legislation under which the Department of Energy determines need, the Department of Interior assures water availability, and a review is conducted of each pipeline project to determine environmental and transportation impacts.

In order to present an Administration position to Congress, your guidance is requested on the issue of jurisdiction over coal slurry certification. This involves a resolution of these questions:

- Which agency will issue certificates and regulate operations of interstate coal pipelines?
- Will the other two agencies not issuing certificates have veto power over pipeline construction?

Discussion

Three Departments have a legitimate role to play in the certification process -- Transportation (DOT), Energy (DOE), and Interior (DOI). All agree on the nature of their respective roles, i.e., Interior to determine water, land use and environmental questions, Transportation to evaluate transportation impacts, Energy to determine energy needs. Disagreement exists concerning which agency should be the lead authority in the process, and whether the others should be able to block pipeline construction.

DOI believes it is best suited to coordinate the certification and regulatory responsibilities which it defines as those of natural resources and public land management, land use planning, environmental monitoring, standard setting and enforcement. Present coal slurry bills call for DOI certification and ICC regulations. DOI recognizes that certification responsibilities also can be done by DOT, and would not object to that, stating, "What is most important is that the distribution of federal responsibilities be fully recognized and that each of the major responsible Departments have a procedural check on certification." DOI feels that in any event, right-of-way determination across public lands, water availability, and other resource determinations should involve affirmative findings by DOI rather than simply consultation. (DOI views, Tab A.)

DOT argues that once the basic need for a flow of coal from one place to another has been established, the decision as to which mode of transportation should be used is fundamentally one of transportation economics. They state: "The fundamental question is going to be whether a slurry pipeline or some other mode represents the best societal choice as a long-run transportation investment decision." Coal transportation impacts and options distinguish coal slurry decisions from oil or gas pipelines, in that a slurry decision involves determining whether it should be built (an intermodal analysis) whereas an oil and gas pipeline decision is basically a route selection (intramodal analysis). DOT's position is that although it should be the lead agency, certification should be contingent upon affirmative findings by DOE and DOI that the pipeline is consistent with national energy and natural resource policies. DOT feels strongly that even if it does not receive the authority to issue the certificate, an adverse finding against a particular pipeline proposal on transportation grounds should be binding. (DOT views, Tab B.)

DOE proposes that it be the lead agency with only advisory roles for the other two agencies. They state:

"The White House Energy Office believes that the logic that led to the Administration's energy reorganization legislation that would shift the regulatory authority over oil and natural gas pipelines to the DOE is equally valid in the case of coal pipelines. The argument states that the decision to grant the right of eminent domain must take into account simultaneously: overall energy needs; environmental impacts; and, the effect on competing modes of transportation; -- but that the decision-making authority over a single fuel

product pipeline should be in the Secretary of Energy. The Energy Office recommends that the DOE should have to seek the advice of DOI and DOT.

"The Energy Office argues that it is very unlikely that a project would go ahead if the DOI or the DOT advised that the project would result in serious adverse impacts on area water supplies or transportation systems. There would, of course, be the usual opportunity to bring the matter to your attention by either of the advising Departments in the case of a disagreement. The Energy Office believes that to split the formal decision-making responsibility among two or more departments would introduce delays that are not necessary to assure that the competing interests are fully considered."

Note that despite a provision in our DOE bill that slurries should be moved to DOE along with other ICC energy pipeline functions, Congress has expressly removed coal slurry pipelines from DOE's jurisdiction in the bill.

A basic consideration is how easy or difficult it should be for a slurry proposal to gain approval. In addition to the arguments each agency can make for its jurisdiction, the question is how to structure the institutional decision-making to allow fair weighing of competing interests. Institutionally, DOE can be expected to be more likely to support coal slurry construction, while DOI and DOT can be expected to have less favorable institutional biases.

OMB recommends that DOE be the lead agency. Under their proposal, consultation with the other agencies would be required, but DOE would have discretion to reject dissenting views if it felt a coal pipeline would be in the overriding national interest. OMB feels that if this option is selected, DOE should be required to follow quasi-judicial procedures which would provide an evidentiary basis for the granting of a license. DOI and DOT findings would be a part of the factual evidence, and the courts, not the President, would settle disputes among interests. (OMB memo - Tab C)

Recommendation

I recommend that DOE be the lead agency, but that DOT and DOI should have veto power. The "threshold" determination --

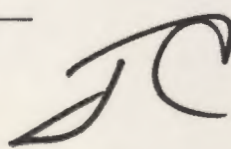
-4-

whether coal is needed at a certain place -- is DOE's. DOE would set a slurry proposal in motion; DOT would determine whether slurry is the best means of transportation, and DOI would determine if water and a right-of-way can be provided consistent with natural resource policies. If either DOT or DOI judged the slurry inadvisable, DOE would have the option to appeal to the President on the basis of overriding national interest. When a slurry is approved, the certificate would be issued and the pipeline would be regulated by DOE. I feel this is preferable to the other options.

- DOE can be expected to be the advocate of slurry proposals, so it should not have the sole authority to approve them. DOE may not have the expertise to fairly judge the transportation and water/right-of-way determinations of DOT and DOI.
- There will be very few slurry proposals. While I generally feel as many decisions as possible should be kept at the agency level and away from your desk, I think this is a case where the three agencies each have substantial, discrete interests and where your intervention (if DOE seeks it) is appropriate. I would doubt that more than one proposal would arise each year.
- Each slurry decision will be inherently political, with intense interests on both sides. Since any determination will be viewed as an Administration decision anyway, I think it is appropriate for the President to be the final arbiter when the agencies disagree.

Decisions

1. Which agency should have the certification and regulatory responsibility for coal slurry pipelines?
DOI _____ DOT _____ DOE ✓
2. Should the other two agencies have advisory or concurrence (veto) roles in the certification process?
Advisory only _____ Veto power ✓
3. If you feel that the other two agencies should have veto power, should the lead agency have the authority to appeal to the President to override adverse findings?
Yes ✓ No _____



cc: Kathy ✓



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAY 31 1977

Memorandum

To: Stu Eizenstat, Assistant to the President for
Domestic Affairs and Policy

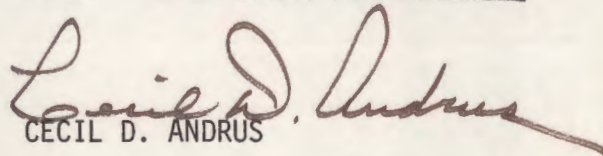
From: Cecil D. Andrus, Secretary of the Interior

Subject: Federal Responsibilities, Certification of Coal Slurry
Pipeline

Attached is our analysis of the various Federal responsibilities that must be met when the Federal Government certifies and regulates interstate coal slurry pipelines.

As you will note, most of the responsibilities are those of natural resources and public lands management, land use planning, environmental monitoring, standard setting, and enforcement. For that reason, we believe the coordination of the responsibilities will best be accomplished if Federal certification of coal slurry pipelines is done by the Department of the Interior.

However, we also recognize that a local allocation of all Federal legal and policy responsibilities and interests can also be made within the framework of certification by the Department of Transportation. What is most important is that the distribution of Federal responsibilities be fully recognized and that each of the major responsible Departments have a procedural check on certification.


CECIL D. ANDRUS

Attachment

cc: Secretary Adams, DOT
Dr. Schlesinger
Director Lance, OMB



Federal Responsibilities: Certification of Coal Slurry Pipelines

Submitted by Department of Interior

I. DEPARTMENT OF ENERGY

Determine that national or regional energy needs would be best served by:

1. the use of coal to produce energy for consumption in a particular demand center;
2. supply of the required coal from a particular production center.

II. DEPARTMENT OF TRANSPORTATION

Determine that national or regional transportation needs would be best served by:

1. transportation of the required coal via existing rail, barge, or pipeline systems;
2. expansion or improvement of coal-carrying capacity of existing systems, or development of new capacity for coal transportation;
3. if pipeline or other new transportation mode is required, assure parity of rates to avoid unfair competition between modes, assure balance in inter-modal capacity to prevent deterioration of overall transportation services.

III. DEPARTMENT OF INTERIOR

Balance the multiple resource and land use impacts of pipeline development:

1. determine adequacy of water supply; manage the federal interest in water development, storage, distribution, allocation, conservation;
2. manage the public lands through determination of suitability of proposed rights-of-way across public lands, determine impacts on wildlife, intersected streams, access for recreation and other uses of public lands;
3. develop and enforce standards to protect the public lands, water, wildlife against damage from construction activities, and from leaks, blockages, and other operational failures;
4. coordinate with land use planning efforts of State and local governments to determine and minimize impacts on other private and public lands;
5. assure project compliance with federal air and water quality standards, NEPA, Endangered Species Act, Historic Preservation Act, Federal Land Management and Planning Act.

OTHER FEDERAL RESPONSIBILITY, AUTHORITY

1. make determination that project cannot be accomplished through application of existing State certification and regulatory authority, exercise federal authority by issuing federal certificate of convenience;
2. exercise authority to order, directly or through the ICC, other federally-regulated carriers to grant easements for right-of-way across lands owned by the carriers, in order to prevent competitive carriers from blocking development of pipelines issued federal certificates of convenience;
3. assure compliance with Anti-Trust, Fair Employment Practices.

TAB B



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

PRIORITY

MAY 24 1977

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Coal Slurry Pipelines

The question has been raised as to which agency of government should take the lead in the development of Federal policy towards coal slurry pipelines and, in particular, which Executive Branch official should decide whether a certificate of public convenience and necessity should be granted to a carrier of coal by pipeline in order to facilitate the construction of such a pipeline.

Clearly, there are several important considerations that will bear on the relative desirability, from a public interest point of view, of using coal slurry pipelines instead of some other modes of transportation. They include environmental and land use impacts, water resource conservation, the relative economic efficiency of alternative modes of transportation, the economic impact on the ultimate users of the energy derived from the coal, interregional energy transportation requirements, the impact on the financial viability of other modes, safety, etc.

However, once the basic need for a flow of coal from one region to another has been established, the decision as to whether a coal slurry pipeline or some other mode of transportation should be used is, in fact, largely one of transportation economics. As such matters clearly fall within the purview of the Department of Transportation, the responsibility for developing basic policy and for issuing certificates of public convenience and necessity where found to be in the overall public interest should rest with DOT, with appropriate input, of course, from the other interested agencies.

While transportation economics emerges as the primary concern, it is clearly not the only one. The DOT's granting of a certificate should be made contingent upon an initial affirmative finding by the Department of Energy that the movement of coal between the affected

regions would be consistent with national energy policy. Once this initial finding had been made, the Department of Transportation should determine the best method of transporting the coal from the point of origin to the point of use (i.e., rail, barge, special coal roads, coal slurry pipelines). Assuming that the Department of Transportation decides that coal slurry is the best method of transporting coal, then the Department of Interior should be required to make an affirmative finding that the extraction of water on the site of the slurry preparation plan would not deplete the available water supply to the point of creating undue disruptions in the local environment or economy. The DOI should also be required to certify that, to the extent coal slurry pipelines traversed Federal public lands, the construction and operation of the pipelines would be consistent with policies regarding the use of those lands.

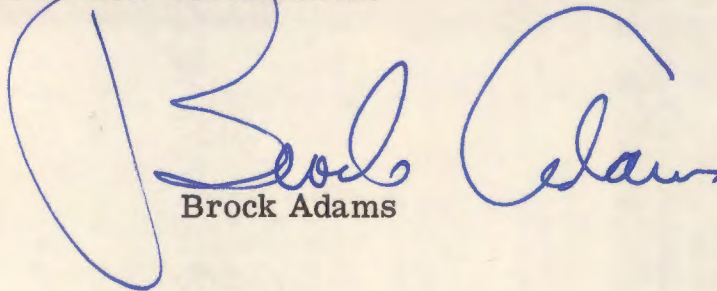
Once affirmative findings in these areas had been made, the DOT would follow through on the remainder of the certification process, calling on other Federal agencies to comment on aspects of an application within their fields of expertise. EPA and CEQ from the environmental viewpoint, and DOJ and the FTC from the anti-trust viewpoint, would be involved at this point. Public hearings would be held in the potentially affected states. A statutory timetable setting deadlines for the initial findings of the DOE and DOI, hearings, and comments from other concerned agencies, and a final decision by the Secretary of DOT would be essential in order to process application expeditiously and to ensure that the decision-making process was not unduly delayed.

DOE argues that with the regulation of oil and natural gas pipelines being shifted to it, coal slurry pipeline regulation/licensing should be vested in the same authority. However, the rationale for this shift is that the effective management of our oil and natural gas resources by DOE requires that it be able to influence their allocation through price regulation. This is clearly not the case with respect to coal. Moreover, relative transportation economics is not a matter of significant concern with respect to petroleum and natural gas transportation, while it is the dominant question in the case of coal. Railroads, for example, are but a minor factor in oil and gas transportation (and are likely to remain so), but they depend greatly on coal movements for their traffic base. The past history of Federal subsidies to competing modes of transportation which simply served to support, at great public cost, redundant transportation capacity argues strongly that primary attention be

given to this aspect of any coal slurry pipeline decision. Some \$130 billion has been spent by the Federal Government on transportation programs over the course of the past two centuries; over 90 percent of these amounts have been expended since the end of World War II.

DOT was given analogous authority under the Deepwater Ports Act and has a proven track record in successfully handling this kind of difficult administrative charge under tight deadlines.

Considering the significant transportation impacts that the construction of coal slurry pipelines are likely to have, the DOT should play the lead role in their certification.

A handwritten signature in blue ink, appearing to read "Brock Adams", is written over the printed name. The signature is stylized, with a large, looping initial "B" and a cursive "Adams".

Brock Adams

TAB C



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

xc: Kathy

May 31, 1977

MEMORANDUM FOR: STU EIZENSTAT
FROM: ELIOT CUTLER
SUBJECT: COAL SLURRY PIPELINES JURISDICTION

I believe we agree that the Department of Energy should be given the primary responsibility for considering applications for the development of coal slurry pipelines and for issuing or denying certificates of public convenience and necessity. We also agree that the Department of Transportation should determine the potential economic impact of a pipeline on other forms of transportation, and that the Department of Interior should determine the impact of a pipeline on natural resources.

The issue is how much weight the Secretary of Energy must give to the determinations of the other departments. Is he to be bound by their determinations? Because a balancing analysis will be required--where the importance of moving coal from one area to another must be balanced against the possible adverse transportation and natural resources impacts, I believe the Secretary of Energy should be held to the factual findings and conclusions of the other departments, but he must determine the ultimate conclusions which result from a balancing analysis.

I think a procedure which would give the findings made by Transportation and Interior the weight they deserve can be developed and would be preferable to the politically troublesome alternative of formal reference to the President.

This procedure would require that the Secretary of Energy issue a certificate of public convenience and necessity to an applicant only if he finds that the need for the pipeline clearly outweighs any adverse impacts on other forms of transportation (as determined by the Secretary of Transportation) and on natural resources (as determined by the Secretary of Interior). Because a license would be at issue, the Secretary of Energy

would be required to follow quasi-judicial procedures, and his decision would have to be based on substantial evidence in the record. The record, of course, would include the factual findings made by Transportation and Interior.

The President would retain informal influence over the Secretary's decision, since the responsibility would rest with a member of his cabinet. An appeal of the Secretary's decision, however, would be adjudicated by a court, thereby insulating the President in a formal way from what usually will be a no-win political situation.

This approach would be OMB's preferred alternative.

THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat -

**The attached was returned in
the President's outbox. It is
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Rick Hutcheson

Re: Coal Slurry Pipeline:
Certification Jurisdiction

THE WHITE HOUSE
WASHINGTON

June 1, 1977

C

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT *Stu*

SUBJECT:

Coal Slurry Pipeline:
Certification Jurisdiction

Background

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product pipeline should be in the Secretary of Energy. The Energy Office recommends that the DOE should have to seek the advice of DOI and DOT.

"The Energy Office argues that it is very unlikely that a project would go ahead if the DOI or the DOT advised that the project would result in serious adverse impacts on area water supplies or transportation systems. There would, of course, be the usual opportunity to bring the matter to your attention by either of the advising Departments in the case of a disagreement. The Energy Office believes that to split the formal decision-making responsibility among two or more departments would introduce delays that are not necessary to assure that the competing interests are fully considered."

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Recommendation

I recommend that DOE be the lead agency, but that DOT and DOI should have veto power. The "threshold" determination --

whether coal is needed at a certain place -- is DOE's. DOE would set a slurry proposal in motion; DOT would determine whether slurry is the best means of transportation, and DOI would determine if water and a right-of-way can be provided consistent with natural resource policies. If either DOT or DOI judged the slurry inadvisable, DOE would have the option to appeal to the President on the basis of overriding national interest. When a slurry is approved, the certificate would be issued and the pipeline would be regulated by DOE. I feel this is preferable to the other options.

- DOE can be expected to be the advocate of slurry proposals, so it should not have the sole authority to approve them. DOE may not have the expertise to fairly judge the transportation and water/right-of-way determinations of DOT and DOI.
- There will be very few slurry proposals. While I generally feel as many decisions as possible should be kept at the agency level and away from your desk, I think this is a case where the three agencies each have substantial, discrete interests and where your intervention (if DOE seeks it) is appropriate. I would doubt that more than one proposal would arise each year.
- Each slurry decision will be inherently political, with intense interests on both sides. Since any determination will be viewed as an Administration decision anyway, I think it is appropriate for the President to be the final arbiter when the agencies disagree.

Decisions

1. Which agency should have the certification and regulatory responsibility for coal slurry pipelines?

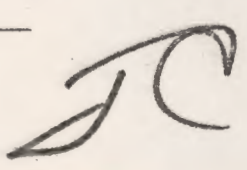
DOI _____ DOT _____ DOE ✓

2. Should the other two agencies have advisory or concurrence (veto) roles in the certification process?

Advisory only _____ Veto power ✓

3. If you feel that the other two agencies should have veto power, should the lead agency have the authority to appeal to the President to override adverse findings?

Yes ✓ No _____



THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat -

**The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.**

Rick Hutcheson

Re: Coal Slurry Pipeline:
Certification Jurisdiction

THE WHITE HOUSE
WASHINGTON

June 1, 1977

C

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT *Stu*

SUBJECT:

Coal Slurry Pipeline:
Certification Jurisdiction

Background

In response to previous memos on coal slurry pipeline you indicated support for enabling legislation under which the Department of Energy determines need, the Department of Interior assures water availability, and a review is conducted of each pipeline project to determine environmental and transportation impacts.

In order to present an Administration position to Congress, your guidance is requested on the issue of jurisdiction over coal slurry certification. This involves a resolution of these questions:

- Which agency will issue certificates and regulate operations of interstate coal pipelines?
- Will the other two agencies not issuing certificates have veto power over pipeline construction?

Discussion

Three Departments have a legitimate role to play in the certification process -- Transportation (DOT), Energy (DOE), and Interior (DOI). All agree on the nature of their respective roles, i.e., Interior to determine water, land use and environmental questions, Transportation to evaluate transportation impacts, Energy to determine energy needs. Disagreement exists concerning which agency should be the lead authority in the process, and whether the others should be able to block pipeline construction.

DOI believes it is best suited to coordinate the certification and regulatory responsibilities which it defines as those of natural resources and public land management, land use planning, environmental monitoring, standard setting and enforcement. Present coal slurry bills call for DOI certification and ICC regulations. DOI recognizes that certification responsibilities also can be done by DOT, and would not object to that, stating, "What is most important is that the distribution of federal responsibilities be fully recognized and that each of the major responsible Departments have a procedural check on certification." DOI feels that in any event, right-of-way determination across public lands, water availability, and other resource determinations should involve affirmative findings by DOI rather than simply consultation. (DOI views, Tab A.)

DOT argues that once the basic need for a flow of coal from one place to another has been established, the decision as to which mode of transportation should be used is fundamentally one of transportation economics. They state: "The fundamental question is going to be whether a slurry pipeline or some other mode represents the best societal choice as a long-run transportation investment decision." Coal transportation impacts and options distinguish coal slurry decisions from oil or gas pipelines, in that a slurry decision involves determining whether it should be built (an intermodal analysis) whereas an oil and gas pipeline decision is basically a route selection (intramodal analysis). DOT's position is that although it should be the lead agency, certification should be contingent upon affirmative findings by DOE and DOI that the pipeline is consistent with national energy and natural resource policies. DOT feels strongly that even if it does not receive the authority to issue the certificate, an adverse finding against a particular pipeline proposal on transportation grounds should be binding. (DOT views, Tab B.)

DOE proposes that it be the lead agency with only advisory roles for the other two agencies. They state:

"The White House Energy Office believes that the logic that led to the Administration's energy reorganization legislation that would shift the regulatory authority over oil and natural gas pipelines to the DOE is equally valid in the case of coal pipelines. The argument states that the decision to grant the right of eminent domain must take into account simultaneously: overall energy needs; environmental impacts; and, the effect on competing modes of transportation; -- but that the decision-making authority over a single fuel

product pipeline should be in the Secretary of Energy. The Energy Office recommends that the DOE should have to seek the advice of DOI and DOT.

"The Energy Office argues that it is very unlikely that a project would go ahead if the DOI or the DOT advised that the project would result in serious adverse impacts on area water supplies or transportation systems. There would, of course, be the usual opportunity to bring the matter to your attention by either of the advising Departments in the case of a disagreement. The Energy Office believes that to split the formal decision-making responsibility among two or more departments would introduce delays that are not necessary to assure that the competing interests are fully considered."

Note that despite a provision in our DOE bill that slurries should be moved to DOE along with other ICC energy pipeline functions, Congress has expressly removed coal slurry pipelines from DOE's jurisdiction in the bill.

A basic consideration is how easy or difficult it should be for a slurry proposal to gain approval. In addition to the arguments each agency can make for its jurisdiction, the question is how to structure the institutional decision-making to allow fair weighing of competing interests. Institutionally, DOE can be expected to be more likely to support coal slurry construction, while DOI and DOT can be expected to have less favorable institutional biases.

OMB recommends that DOE be the lead agency. Under their proposal, consultation with the other agencies would be required, but DOE would have discretion to reject dissenting views if it felt a coal pipeline would be in the overriding national interest. OMB feels that if this option is selected, DOE should be required to follow quasi-judicial procedures which would provide an evidentiary basis for the granting of a license. DOI and DOT findings would be a part of the factual evidence, and the courts, not the President, would settle disputes among interests. (OMB memo - Tab C)

Recommendation

I recommend that DOE be the lead agency, but that DOT and DOI should have veto power. The "threshold" determination --

whether coal is needed at a certain place -- is DOE's. DOE would set a slurry proposal in motion; DOT would determine whether slurry is the best means of transportation, and DOI would determine if water and a right-of-way can be provided consistent with natural resource policies. If either DOT or DOI judged the slurry inadvisable, DOE would have the option to appeal to the President on the basis of overriding national interest. When a slurry is approved, the certificate would be issued and the pipeline would be regulated by DOE. I feel this is preferable to the other options.

- DOE can be expected to be the advocate of slurry proposals, so it should not have the sole authority to approve them. DOE may not have the expertise to fairly judge the transportation and water/right-of-way determinations of DOT and DOI.
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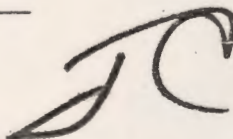
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Yes ✓ No _____



THE WHITE HOUSE
WASHINGTON

June 1, 1977

C

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT *Stu*

SUBJECT:

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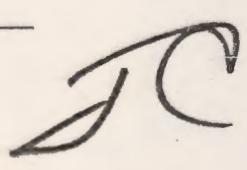
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Advisory only _____ Veto power ✓

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Yes ✓ No _____



THE WHITE HOUSE

WASHINGTON

Date: June 2, 1977

MEMORANDUM

FOR ACTION:

Jack Watson

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 6/1 re Coal Slurry Pipeline:
Certification Jurisdiction.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: IMMEDIATE TURNAROUND

DAY:

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

6/4

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required

THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Bert Lance

Re: "National Consumer Cooperative
Bank Act" Legislation

See Briefing Paper 6/2/77 with Rep. St. Germain

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
		EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
		LIPSHUTZ	Comments due to
		MOORE	Carp/Huron within
		POWELL	48 hours; due to
		WATSON	Staff Secretary
			next day

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON		KRAFT
	BOURNE		LANCE
	BRZEZINSKI		LINDER
	BUTLER		MITCHELL
	CARP		POSTON
	H. CARTER		PRESS
	CLOUGH		B. RAINWATER
	FALLOWS		SCHLESINGER
	FIRST LADY		SCHNEIDERS
	GAMMILL		SCHULTZE
	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE

THE WHITE HOUSE
WASHINGTON

Mr. President:

Bert Lance has not seen the attached memo, but did see an earlier, longer version. Lance favors the pilot project alternative (#3).

A summary of staff comments is also attached.

Rick

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

*Stu
J*

ACTION

3 June 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON *RH*

SUBJECT:

Eizenstat/Lance Memo on Consumer
Coop Bank Act

Lance and Eizenstat have requested that the attached be resubmitted to you. Neither is certain of your position on the St. Germain bill.

**Electrostatic Copy Made
for Preservation Purposes**



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Stu.
C

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR: THE PRESIDENT

FROM: BERT LANCE
STU EIZENSTAT Stu

SUBJECT: "National Consumer Cooperative
Bank Act" Legislation

The Committee on Banking, Finance and Urban Affairs has favorably reported an amended "National Consumer Cooperative Bank Act" (H.R. 2777). This was one of the five major legislative items proposed to you by the major consumer groups and is supported by labor. You decided not to support this legislation until a study of the proposal was completed. Several agencies have requested that you reconsider this decision in light of recent congressional action.

Committee Bill. H.R. 2777 would establish a "National Consumer Cooperative Bank" which would make direct loans to or guarantee loans made to consumer cooperatives (including housing and consumer goods coops) at market rates. The Bank would receive \$500 million of Federal equity funding over five years with \$100 million authorized in 1978 and could also raise capital from members. It could issue debt (not to exceed 10 times its equity capital) which could be purchased by the Secretary of the Treasury or private interests. The Bank would be required to buy out the Federal interest beginning in 1990 and to pay dividends on Federal stock, if the Bank were profitable. It would be governed by a 13 member board originally controlled by Presidential appointees, but shifting to control by other stockholders as the Federal equity interest declines.

Authorization of \$250 million is provided for a Self-Help Development Fund (\$10 million in 1978) which would be administered in a newly ← ?
created Office of Consumer Cooperatives in ACTION. The Fund could make capital investment in, or provide interest subsidies to, high risk, low income cooperatives. The Office would also provide technical assistance (financial analyses, market surveys, management training, etc.) financed by Federal appropriations.

The bill was reported by a vote of 28-11 with four Democrats voting with the minority. Subcommittee Chairman St. Germain, who wrote to you on April 27, 1977, expressing his disappointment with the Administration's opposition to the establishment of a Bank, considers this legislation to be his highest priority.

Current Administration Position. Based on your earlier decision to study this issue, the Administration (Treasury) testified in opposition to the establishment of a Bank and Assistance Administration at this time. Treasury proposed legislation that would authorize a two-year, \$20 million pilot project in an existing agency in conjunction with the study you requested.

The testimony indicated that before the Administration could support H.R. 2777, more evidence concerning the need for and cost effectiveness of the new agencies was needed. In particular, much remained "to be learned about (1) the specific unsatisfied financial and nonfinancial needs of cooperatives which the Government should address, (2) the type of assistance which cooperatives most require, (3) the existing government programs which might be expanded or better coordinated to help cooperatives and (4) whether an existing government entity, rather than a new one, is best suited to handle cooperative issues."

Smaller Bank Alternative. This alternative envisions a smaller Bank with a Federal equity investment of \$50 million annually over 5 years, no Federal debt purchases, and limited private sector debt sales.

Alternatives (see Table for comparison)

1. Support H.R. 2777 as reported.
2. Support establishment of a smaller Bank.
3. Maintain current position, support of a pilot project.

Proponents of H.R. 2777 believe coops assist in the achievement of the goals of national economic efficiency, increased competition, redevelopment of depressed regions of the country, and the reaching of desirable social (ownership dispersion) objectives. In their view, the intent of the bill--to enable consumer groups to obtain credit and technical assistance from a dependable source for self-help efforts--is consistent with these goals. They maintain that consumer cooperatives (with an emphasis upon health, legal, housing, and repair cooperatives, as well as consumer goods) are currently unable to obtain adequate credit from existing financial institutions regardless of whether the coop is well established or fledgling, and they often lack the technical expertise needed to launch successful enterprise. Thus, they argue, Federal assistance is needed.

H.R. 2777 proponents believe that the concept of a consumer cooperative bank has worked exceptionally well in the farm credit and rural electrification systems by providing a source of credit designed to meet specialized needs. They assert that the ultimate result of such an activity is to redevelop urban areas by providing a "community" identification and spirit through economic activity. By achieving economies and providing services, benefits flow back to the community where most needed. Finally, they point out that if the bank prospers, most of the Federal funds will be repaid, perhaps with dividends.

In addition to strong consumer and labor support, the original bill was sponsored by 35 Senators and 100 Congressmen. Further, proponents assert that Senators Proxmire and McIntyre are pleased with the actions in the House and want their respective Committee and Subcommittee to give the bill the earliest favorable consideration.

Proponents of the smaller bank recommend that we negotiate to obtain the smallest possible Bank with adequate Federal capitalization to attract private capital: this is estimated to require an annual outlay of about \$50 million. The negotiation would result in (1) a reduction in the total appropriation, and (2) a stretchout of the period of capitalization, which would reduce by \$250 million outlays in the period through FY 1981.

Proponents of the smaller bank believe:

(1) Opposition to the bank is based on the inadequacy of data on (a) the real credit needs of cooperatives, and (b) the degree to which those needs have not been met because of discrimination by banks. It is inherently difficult to quantify the degree to which creditworthy loan applicants are unable to obtain assistance. Proponents of the smaller bank believe, nonetheless, that two years of congressional hearings have suggested that there is evidence of some discrimination, although its magnitude cannot be quantified. In addition, the financing of urban coops has been impeded by (a) a reduction in inner city lending by banks, and (b) lenders' fears of extending credit to not-for-profit associations without a proven record. The Bank would assure these Coops access to credit, but at competitive market rates. Coops could provide a new source of goods in urban areas that have been "redlined" by retail business.

(2) The Domestic Council believes Senate passage is more likely than not, and would negotiate now to gain some political credit for the bill's passage.

Proponents of the current Administration positions maintain that there is insufficient evidence available on the claimed inability of cooperatives to obtain credit from existing financial institutions to justify the establishment of a new Government sponsored Bank and the expenditure of substantial Federal funds (over \$5 billion of Federal funds could be outlayed over 5 years). They want to make sure aid to cooperatives is consistent with existing Federal programs under which cooperatives and their small business competitors can already receive assistance. They note that caution is desirable since H.R. 2777 would reduce credit in other market sectors at a time when expansion should be encouraged.

Proponents have reservations about the capability of consumer cooperatives, ACTION, and the new Bank to use effectively this large infusion of funds. A two year pilot project and your requested study could resolve many of these issues while providing invaluable information with which to design effectively any needed Federal assistance to cooperatives including perhaps a future consumer cooperative bank.

They are also concerned about the effects of another change in an Administration position on those Congressmen who supported the Administration's current position. In this regard, it might be noted that the Administration proposal lost in Committee by a vote of 17-23. It would be advisable to await a clearer picture of the bill's prospects in the Senate before we alter our position (e.g., many small businesses who will feel threatened by the coops will oppose the bill).

Recommendations

Decision

- Alternative 1. \$100 million annual equity investment
Maximum 5 year budget impact: \$5.8 B
Favored by: Labor, Agriculture, HUD,
Special Assistant to the President for
Consumer Affairs, ACTION
- Alternative 2. \$50 million annual equity investment
Maximum 5 year budget impact: \$300 M
Favored by: HEW, Domestic Council
- Alternative 3. \$20 million pilot
Maximum Federal exposure: \$20 M
Favored by: Treasury, CEA, SBA,
Commerce, OMB

_____ ✓ _____

and/or

*Why not shift to SBA (for ACTION)
& allot an extra amount of \$
specifically for loans to coops
during the test period. Already
have nationwide bureaucracy. Talk
to St Germaine*

J.C.

NATIONAL CONSUMER COOPERATIVE BANK ACT
FINANCIAL AND ORGANIZATIONAL ALTERNATIVES

	Alternative 1 H.R. 2777 as Reported	Alternative 2 Smaller Bank	Alternative 3 Pilot Project
<u>Treasury Pilot Project</u>	---	---	\$20 M 2 years
<u>National Consumer Cooperative Bank</u>			
. Federal Equity Investment Authorization	\$500 M 5 years (\$100 M in 1978)	\$250 M 5 years (\$50 M Annually)	---
. Maximum Debt/Equity Ratio	10:1	10:1	---
. Authorization for Federal Government Purchase of Bank's Debt	Yes	---	---
. Authority to Issue Loan Guarantees	Yes	---	---
<u>Development Fund/Technical Assistance</u>			
. Self-Help Development Fund Authorizations	\$250 M (\$10 M in 1978)	\$25 M (\$5 M Annually)	---
. Fund Administration and Technical Assistance	New Office in ACTION	Negotiable	Administered by Treasury
<u>Maximum Federal Outlays</u>			
. Assumes Federal purchase of authorized debt and no dividends	\$5,800 M	\$300 M	\$20 M

STAFF COMMENTS

SUMMARY OF STAFF COMMENTS

Watson, Costanza, Peterson and Brown support the National Consumer Bank Act as reported. Aragon disagrees.

COSTANZA: "Consumer cooperatives have a clear need for technical assistance and direct or guaranteed loans. A self-help program such as this is consistent with the Administration's attitude toward people-oriented programs."

PETERSON: Coops can serve as yardsticks for a competitive system without dominating it. The amended St. Germain bill attempts to scale the program down to a size more palatable to the Administration. Peterson is convinced of the need for a Coop Bank and Self Help Fund now -- with a funding level high enough to win the confidence of Wall Street. If the Administration fails to produce a realistic funding recommendation, given strong congressional support for the legislation, a program may well be enacted over Administration objections with terms dictated by Congress.

SAM BROWN: Evidence demonstrating the credit problems facing those who wish to establish consumer cooperatives is overwhelming. Conventional banking institutions have not been very receptive to financing coops. The Administration should not support a pilot project, as there is not much more to be learned about the specific unsatisfied financial and nonfinancial needs of cooperatives. Also, capitalizing the bank at only \$25 million would severely cripple its chances for success. Private investors would reject debt issues so thinly capitalized. Placing the Self Help Fund and Technical Assistance Program within the smaller bank would further erode Wall Street confidence in it. ACTION would be able to administer the Self Help Fund and Technical Assistance Program; these programs should be administered by an agency which is responsive to those most in need.

ARAGON: New social programs should be tried out on an experimental basis first, before large-scale funding takes place. Hence, a pilot program would be desirable. Also, the Community Services Administration seems more suited to this effort than ACTION. CSA is already doing some work with cooperatives through the Community Development Corporation.

(The Peterson and Brown memos are attached, if you wish to read them in full.)

---Rick

THE WHITE HOUSE
WASHINGTON

May 12, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

ESTHER PETERSON

SUBJECT:

Consumer Cooperative Legislation

As an advocate of consumer cooperatives, I welcome federal initiatives which will promote their establishment and well-being. Living in Sweden for four and one-half years, I have seen first hand that coops can serve as yardsticks for a competitive system, without dominating it.

Support of the coop movement is consistent with your domestic program, as coops can provide meaningful opportunity to help revitalize depressed areas of our country. Moreover, given your sensitivity to and concern for "people-oriented" self help programs, perceived opposition to this program could leave you vulnerable to attack by its supporters.

Finally, I believe the amended St. Germain bill (alternative 1) is a bona fide attempt to scale the program down to a size more palatable to the Administration. It sliced the bank's capitalization in half, abandoned creation of a new Cooperative Bank and Assistance Administration, and spread financing for the Self Help Development Fund from one year to five years.

You should consider the possibility that Wall Street may be hesitant to embrace a Bank (a) funded at the lower level proposed in alternative 2, and (b) which administers, in addition, a subsidized loan program (as envisioned in the Self Help Fund) and an assistance program. I am convinced of the need for a Coop Bank and Self Help Fund now, with a funding level sufficient to win the confidence of Wall Street. An expedited OMB-Treasury review (1-3 weeks), done in conjunction with Agriculture, Labor, ACTION, and my office, could produce a realistic funding recommendation. Otherwise, it is possible at this point, given the strong Congressional support enjoyed by this legislation, that a program may well be enacted over Administration objections with terms dictated to us by Congress.



OFFICE OF
THE DIRECTOR

ACTION

WASHINGTON, D.C. 20525

May 13, 1977

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

On May 11, 1977, I received a copy of a draft memorandum to you from Bert Lance and Stu Eizenstat which outlines three alternative Administration positions on the "National Consumer Cooperative Bank Act" (H.R. 2777). The need of consumer cooperatives to obtain sufficient credit and technical assistance and my experience as a former Treasurer of Colorado lead me to strongly encourage you to join many members of Congress, labor organizations, consumer groups and Administration officials by supporting "Alternative 1-H.R. 2777 as reported."

Treasury has argued repeatedly that before a cooperative bank is established, there needs to be further study of the credit needs of consumer cooperatives. Both the Senate and House have held extensive hearings during the last two years which revealed the serious problems facing individuals who desire to establish or improve the financial stability of consumer cooperatives. Prior to joining your Administration, several of your appointees active in the consumerism movement, including myself, had taken public positions and testified before Congress on the well documented credit needs of consumer cooperatives. The House Banking Committee's recognition of the credit problems of cooperatives resulted in a 28-11 vote in favor of H.R. 2777, as amended, with only four Democrats voting with the minority. Senator McIntyre, the Chairman of the Senate Financial Institutions Subcommittee and the principal sponsor of the bill, told the Senate on May 11, 1977, that extensive hearings on this issue have been held. He concluded:



The conventional banking institutions of this country, unfortunately, have not been very receptive to financing cooperative organizations. Just as the farm co-ops needed their own banking system in order to flourish, consumer co-ops will receive the same kind of stimulus from the proposed consumer co-op banks. As a loan program, it will have negligible costs to the taxpayer, and great benefits for the consumer.

My experience as a former Treasurer of Colorado affords me insights into the problems which the Cooperative Bank would address. I can testify to the very difficult time that residents in Denver had in securing financial credit for the Denver food coop, The Common Market. The food coop was in a great need of capital as it tried to replace a large supermarket chain which abandoned its innercity store. Banks in the area were not interested in supplying credit to this nonprofit institution. A breakthrough occurred only after I was able to facilitate an agreement between a bank president and the Denver residents.

The evidence of credit problems is overwhelming. If Treasury would only check prior Congressional testimony and the viewpoints of Ray Marshall, Geno Baroni, Carol Foreman, and others in this Administration, there would be a clear consensus that there is not much more to be learned about the specific unsatisfied financial and nonfinancial needs of cooperatives which need to be addressed by the Government. Thus, "Alternative 3 - maintain current position, support of a pilot project" should be rejected.

The "Smaller Bank Alternative" (No. 2) should also be rejected since it is not based on financial logic. The reduced capitalization of the bank to \$25 million in the first year and subsequent four years would severely cripple the bank's chances of success. Private investors would very likely reject debt issues of a bank so thinly capitalized. Wall Street's lack of confidence in the financial stability of the bank would delay the bank's ability to repay the government's investment in stock and thus prolong the period in which the bank would not be free from government obligations. Investors who do participate in the bank's private capital activities would probably force the bank to pay punitively high rates of interest on its borrowings.

A \$25 million initial capitalization would be unfair in comparison to the capitalization level of other quasi-governmental lending institutions. In 1933, during the worst of the depression, the Bank of Cooperatives within the Farm Credit System had an initial capitalization of \$178 million. In 1934, the Federal Home Loan Bank Board had an initial capitalization of \$125 million. It would be worth knowing whether the Treasury has a policy on quasi-governmental lending institutions which engage in the capital market with less than \$100 million in capitalization.

The placement of the Self-Help Development Fund and the Technical Assistance Program within the smaller bank would further erode whatever confidence Wall Street may have in the bank. The purpose of the Fund is to invest in undercapitalized cooperatives which would be maintained by low-income persons who live in depressed neighborhoods. Applications for loans from this fund would not meet the criteria for a regular loan from the Cooperative Bank. The placement within the bank of the Self-Help Fund which would provide loans to undertakings which are temporarily uncreditworthy would contribute to the bank's reputation as an unsound financial entity. A technical assistance program is also not a normal function of a bank and would divert attention away from the bank's lending activities.

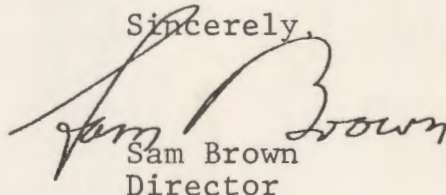
I have received the advice of several individuals who know the private capital market. They have advised me that they share these views on the reduced capitalization issue, the potential for punitive rates of interest, and the inappropriateness of placing the Self-Help Fund and a technical assistance program within an undercapitalized bank. These individuals include: Dr. Robert Rennie, Chief Investment Officer of Nationwide Insurance, who is responsible for overseeing Nationwide's three billion dollars in investments and mutual funds; Mr. Ed Jaenke, former Governor of the Farm Credit System; and Mr. Ed Horne, Chairman of the Home Loan Bank Board from 1965-1968. They all agree that an initial capitalization level of \$100 million would be necessary to convince Wall Street that the bank is a serious financial institution.

I believe that ACTION would be able to administer the Self-Help Fund and the technical assistance program. Both programs require administration by an agency which is responsive to those most in need. ACTION's programs exemplify such responsiveness. Both VISTA and Peace Corps have had experience with developing cooperatives. The atmosphere, commitment, and network for the sound administration of these two important programs can be found in ACTION now; we can recruit the know-how.

Mr. President, today there is a resurgence of interest in the development of consumer cooperatives. People are pooling their purchasing power and organizing consumer cooperatives where they are the users and owners of the business. According to the Cooperative League of the U.S.A., there were an estimated 1,000 consumer cooperatives in 1976 which transacted approximately \$547 million in retail sales. Since the cooperatives do not need to maximize profits, its members are afforded quality goods at dependable and reasonable prices. Members can select food which is nutritional, auto repair shops which emphasize preventative maintenance and self-help and optical services furnishing refraction examinations at low cost. The satisfaction of controlling a share of a business, the ability to side-step inflation, and the opportunity to receive untainted consumer information are just some of the personal benefits of cooperative membership which should be recognized by your Administration.

Mr. President, I urge that you select Alternative 1 as the policy for your Administration.

Sincerely,

A handwritten signature in dark ink, appearing to read "Sam Brown", is written over the typed name and title.

Sam Brown
Director

Attachment: Statement of Senators Proxmire
and McIntyre

NATIONAL CONSUMER COOPERATIVE BANK ACT

Mr. PROXMIRE. Mr. President, I was very pleased to see that the proposed National Consumer Cooperative Bank Act is moving forward in the other body. The legislation has been reported by the House Banking Committee, and apparently stands an excellent chance of passage by the full House.

Cooperatives are a very useful form of enterprise that provide jobs and housing for moderate income people and reasonably priced goods for consumers. Farm co-ops have had enormous success, in part because the Congress had the wisdom several decades ago to provide a central banking facility for them. Although there have been successful retail co-ops and housing co-ops, the consumer co-op movement has not grown as rapidly in the United States as in other Western countries, in large part because of a lack of capital and a lack of adequate management expertise.

The proposed National Consumer Cooperative Bank Act would help provide both. An expansion of consumer co-ops of all kinds—including those providing consumer goods, services such as health care and auto repair, producer co-ops, and of course co-op housing would be ideally suited for this period of inflation and belt-tightening. All of these enterprises would be eligible for loans by the proposed bank system.

Although I have serious reservations about the inflationary impact of new Federal spending programs, I view the legislation introduced by my friend, the Senator from New Hampshire, as an anti-inflationary measure. It is a loan program, not a handout, and the initial equity capital to be subscribed by the Treasury over a period of 4 years would be gradually bought out by participating co-ops, on the model of the farm credit banks. Thus, the initial public contribution would be reimbursed over time.

The legislation was considered by the Senate Banking Committee last session, and action was postponed because of questions about whether the bank should be on budget. As a matter of fiscal responsibility, I believe that it must be on budget, and I am pleased to note that the House Banking Committee has reported it on that basis. I also note that the House Banking Committee has cut the original bill in half, and that action also may well be prudent. I can assure my colleagues that we will give this useful measure prompt consideration once it has been approved by the other body.

Mr. MCINTYRE. Mr. President, I thank the Senator from Wisconsin for his support.

As he knows, this legislation has the endorsement of a wide range of consumer, labor, farm, co-op, and public interest organizations and was the subject of extensive hearings last session. As the principal sponsor of the bill, I plan additional hearings in the Financial Institutions Subcommittee as soon as we get House passage. The conventional banking institutions of this country, unfortunately, have not been very receptive to financing cooperative organizations. Just as the farm co-ops needed their own banking system in order to flourish, consumer co-ops will receive the same kind of stimulus from the proposed consumer co-op banks. As a loan program, it will have negligible costs to the taxpayer, and great benefits for the consumer.

I am very gratified that the chairman of the Banking Committee has promised early and sympathetic consideration of this measure once it has cleared the House, and I am hopeful that we can pass this bill by a wide margin.

THE WHITE HOUSE
WASHINGTON

June 3, 1977

Stu Eizenstat
Bert Lance

The attached was returned in the
President's outbox and is forwarded
to you for your information.

Rick Hutcheson

Re: "National Consumer Cooperative
Bank Act Legislation"

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
	✓	EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
		LIPSHUTZ	Comments due to
		MOORE	Carp/Huron within
		POWELL	48 hours; due to
		WATSON	Staff Secretary
			next day

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
✓	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 6-1-77

TO: Bill Simon
White House
FROM: DENNIS O. GREEN

RE: NATL. CON. Coop. BANK Act

The Director has NOT SEEN THE ATTACHED.
HE PREVIOUSLY SUPPORTED THE PILOT PROJECT.
HE HAS SEEN A SIMILAR MEMO IN WHICH
HE SUPPORTED THE PILOT PROJECT AND
WE NOW SUPPORT THE PILOT PROJECT
ALTERNATIVE 3.

DG

THE WHITE HOUSE
WASHINGTON

MR. PRESIDENT:

You may wish to read this memorandum
as a briefing memo for your meeting
with Congressman St Germain tomorrow.

Stu Eizenstat

1 Jun 77

THE WHITE HOUSE
WASHINGTON

Note

This memo relates
to your 11:45
appointment

Rich

THE WHITE HOUSE

WASHINGTON

May 31, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: BERT LANCE
STU EIZENSTAT

SUBJECT: "National Consumer Bank Act" - H.R. 2777

The House Banking Committee has favorably reported, and the full House is expected to approve Congressman St. Germain's bill to establish a national consumer cooperative bank (H.R. 2777). The bank would provide credit assistance to consumer cooperatives, which purportedly have difficulty obtaining conventional financing.

The coop bank was one of five key legislative initiatives proposed to you by consumer groups; at that time, you deferred a decision pending review.

The Bill

The bank would make or guarantee market rate loans to consumer cooperatives, including housing and consumer goods coops. The initial capitalization would be provided by a \$500 million Treasury subscription over four years, with \$110 million authorized for FY 1978. In addition to Treasury's seed capital, the bank could also borrow in the open market, issuing obligations up to 10 times its equity capital.

The bank would pay Treasury an annual dividend on outstanding principal until 1990, when it would begin redeeming the principal, assuming the bank is profitable. It would originally be governed by a 13-member Presidentially-appointed board, but upon repayment of Treasury seed capital, control of the bank would shift to the owner-user cooperatives.

To attract Administration support, this month Congressman St. Germain modified his original bill in the following respects: a) reduced total FY 1978 outlays from \$500 million (original bill) to \$110 million; b) reduced funding for a separate soft-loan window subsidizing high risk, low income cooperatives from \$250 million to \$10 million in FY'78; c) added a requirement that loans be made at market (not submarket) interest rates; and d) reduced the debt/equity ratio from 20/1 to 10/1.

Despite Administration opposition, the amended version of H.R. 2777 passed the House Banking Committee by 28-11; favorable floor action next week is likely. We cannot clearly assess the Senate outlook, but Senators Proxmire and McIntyre have already spoken on behalf of the bill and want their respective Committee and Subcommittee to give the bill the earliest favorable consideration.

In addition to strong consumer and some labor support, the original bill was sponsored by 35 Senators and 100 Congressmen. Congressman St. Germain wrote to you on April 27, 1977 expressing his disappointment with the Administration's opposition to the establishment of a bank.

Current Administration Position

Based on your earlier decision to study this issue, the Administration (Treasury) testified against the establishment of a bank at this time. Treasury indicated that the Administration was concerned by the paucity of data as to coop credit needs, and proposed a two-year, \$20 million pilot project in conjunction with the study you requested.

Administration supporters of the bank have requested that you reconsider this position in light of recent Congressional action and prospects.

Options:

- 1) Support H.R. 2777 as reported
- 2) Support establishment of a smaller bank
- 3) Maintain current position, support pilot project

Option One

Proponents of H.R. 2777 contend that cooperatives have been successful in rural areas in gaining acceptance (50 million user-owners), increasing competition, redeveloping depressed regions, broadening ownership, and stimulating local economies. Their emergence in urban areas has allegedly been impeded by a) a reduction in inner city lending by existing financial institutions, and b) lenders' particular fears of extending credit to not-for-profit associations without a proven record. Proponents argue that anti-urban lending trends and the outflow of urban retail business create a need for a new source of both credit and goods in urban areas. Since the bank would have its greatest impact in urban areas, its proponents view it as an urban economic development initiative which would reflect the Administration's commitment a) to support local self-help efforts and b) to stabilize the economic base of the older cities.

Beyond the urban impact, the bank's advocates maintain that consumer coops (with an emphasis upon health, legal, housing and repair

cooperatives, as well as consumer goods) are unable to obtain adequate credit regardless of whether the coop is well-established or fledgling, and that coops often lack the technical skills needed to launch a successful enterprise. Thus, they argue, federal credit and technical assistance is justified. They point to the success of the consumer cooperative bank concept in the farm credit and rural electrification systems. They assert that the ultimate result of this bill will be to redevelop urban areas by providing a "community" identification through economic activity, and by assuring that benefits flow back to the local community.

Option One is supported by Labor, Agriculture, HUD, the Special Assistant to the President for Consumer Affairs, and ACTION.

Option Two

The second option is to attempt to negotiate: 1) a reduction in the total appropriation, and 2) a stretchout of the period of capitalization, which would reduce outlays in the period through FY'81. The objective would be to agree upon the smallest possible bank with adequate federal capitalization to attract private capital: this would require an annual outlay of about \$50 million, compared to the \$110 million in the present bill. Our support for the bank would be contingent upon successfully negotiating down its cost. But proponents of the smaller bank believe that an annual capitalization of \$50 million is necessary if the financial markets are to have confidence in the stability of the bank, which is necessary if the bank is to repay the seed capital provided by the federal government.

Proponents of the smaller bank make the following arguments:

1) Opposition to the bank is based on the inadequacy of data on a) the real credit needs of cooperatives, and b) the degree to which those needs have not been met because of discrimination by existing financial institutions. In fact, it is inherently difficult to quantify the degree to which creditworthy loan applicants are unable to obtain assistance. Proponents of the smaller bank believe, nonetheless, that two years of Congressional hearings have suggested that there is evidence of some discrimination, although its magnitude cannot be quantified.

2) A small bank would be a relatively low-cost vehicle for stimulating private capital reinvestment in urban areas; this is a central objective of our urban policy and perhaps the strongest argument for the bank.

3) This is Congressman St. Germain's pet project, House passage is quite probable, and Ralph Nader calls it one of the three most important pieces of consumer legislation in the past generation (perhaps a slight hyperbole).

4) If the Senate is going to act favorably, a negotiated settlement would be preferable to a veto (Treasury, OMB and the

Domestic Council concur on this point). Treasury and OMB regard Senate prospects as unclear and would defer a decision to negotiate; the Domestic Council believes Senate passage is more likely than not, and that the Administration should share some of the credit.

5) The Administration's two-year \$20 million pilot is not regarded as a compromise by the bill's supporters since it defers favorable consideration of a real bank for at least two years. Administration opponents of the bank regard the pilot as a compromise.

6) In a meeting Thursday with Congressman St. Germain you indicated support for the concept of the coop bank. We can state that the Administration's support for a pilot project meets that commitment, but supporters of the bill will not appreciate that interpretation of your support.

Proponents of a smaller bank believe there is one disadvantage to negotiating now: it requires the reversal of Treasury's public position. Treasury has been singled out for unfair attack by the bank's supporters, who have never accepted the fact that Treasury's has been the Administration's position on this issue.

Option Three

Proponents of the current Administration position maintain:

1) There is insufficient evidence available on the claimed inability of cooperatives to obtain credit from existing financial institutions to justify the establishment of a new government sponsored bank and the expenditure of substantial federal funds. Treasury testified that much remained "to be learned about 1) the specific unsatisfied financial and nonfinancial needs of cooperatives which the government should address, 2) the type of assistance which cooperatives most require, 3) the existing government programs which might be expanded or better coordinated to help cooperatives, and 4) whether an existing government entity, rather than a new one, is best suited to handle cooperative issues." A pilot project would help answer these questions. The banks' proponents claim these questions have been adequately reviewed over two years of Congressional hearings.

2) The House Committee Report on the bill cites the importance of "mom and pop" stores, and states that coops should not be funded in communities "adequately served" by existing local stores. Nonetheless, many small businessmen would oppose the bill because it will increase competition at their expense.

3) Supporters of the present position want to assure that aid to cooperatives is consistent with existing federal programs under which cooperatives and their small business competitors can already receive assistance.

4) Caution is desirable since H.R. 2777 would reduce credit in other market sectors at a time when expansion should be encouraged. There are reservations about the capability of consumer coops, ACTION and the new bank to use effectively this large infusion of funds. A pilot project could resolve many of these issues while providing invaluable information with which to effectively design any needed federal assistance to coops including perhaps a future consumer cooperative bank.

5) There is concern over the effects of another change in an Administration position on those Congressmen who supported the Administration's current position. It may be advisable to await a clearer picture of the bill's prospects in the Senate before we alter our position.

Option Three is supported by Treasury, CEA, SBA, Commerce and OMB.

DECISION

_____ Approve Option One

_____ Approve Option Two

_____ Approve Option Three

THE WHITE HOUSE

WASHINGTON

Date: May 20, 1977

MEMORANDUM

FOR ACTION:

The Vice President Jack Watson
Midge Costanza *concur* Esther Peterson
Hamilton Jordan *assist* Charles Schultze
Frank Moore
Jody Powell

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Lance/Eizenstat memo on "National Consumer Bank Act"
Legislation

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 9 a.m.

DAY: ~~Tuesday~~ *Wed*

DATE: May 24

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

*check up on
Kramer*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required

THE WHITE HOUSE

WASHINGTON

May 24, 1977

MEMORANDUM FOR: LONDON BUTLER

FROM: JOE ARAGON *JA*

SUBJECT: NATIONAL CONSUMER BANK ACT
LEGISLATION

Landon --

My only thoughts on this are:

(1) That whatever is done should not be done big - dollar wise - until there is some kind of a track record. We now know enough about social action programs (thanks to the 60's) to know that new programs should be tried out on an experimental basis first before undertaking large scale funding. Therefore, I would propose either alternative #2 or #3. Preferably #3.

(2) What about the Community Services Administration (CSA)? That agency seems more suited to this kind of an effort that ACTION, for example. Besides, CSA is already doing work with cooperatives through its Community Development Corporation (CDC) program. Did anyone consider that agency as a possible home for this program?

*Rick -
Joe's comments
are very relevant, I think -*

J

Date: May 20, 1977

MEMORANDUM

FOR ACTION:

The Vice President	Jack Watson
Midge Costanza	Esther Peterson
<u>Hamilton Jordan</u>	Charles Schultze
Frank Moore	
Jody Powell	

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Lance/Eizenstat memo on "National Consumer Bank Act"
LegislationYOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 9 a.m.

DAY: Tuesday

DATE: May 24

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.☐ No comment.

Please note other comments below:

Joe Hanson
comment?
Ans
J

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Date: May 20, 1977

MEMORANDUM

FOR ACTION:

The Vice President	Jack Watson
<u>Midge Costanza</u>	Esther Peterson
Hamilton Jordan	Charles Schultze
Frank Moore	
Jody Powell	

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Lance/Eizenstat memo on "National Consumer Bank Act"
LegislationYOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 9 a.m.

DAY: Tuesday

DATE: May 24

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.☐ No comment.*Please note other comments below:*

I urge The President to support the National Consumer Bank Act as reported. Consumer cooperatives have a clear need for technical assistance and direct or guaranteed loans. A self-help program such as this is consistent with the Administration's attitude toward people-oriented endeavors.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

This version went in

MEMORANDUM FOR:

THE PRESIDENT

FROM:

BERT LANCE
STU EIZENSTAT

Stu

SUBJECT:

"National Consumer Cooperative
Bank Act" Legislation

The Committee on Banking, Finance and Urban Affairs has favorably reported an amended "National Consumer Cooperative Bank Act" (H.R. 2777). This was one of the five major legislative items proposed to you by the major consumer groups and is supported by labor. You decided not to support this legislation until a study of the proposal was completed. Several agencies have requested that you reconsider this decision in light of recent congressional action.

Committee Bill. H.R. 2777 would establish a "National Consumer Cooperative Bank" which would make direct loans to or guarantee loans made to consumer cooperatives (including housing and consumer goods coops) at market rates. The Bank would receive \$500 million of Federal equity funding over five years with \$100 million authorized in 1978 and could also raise capital from members. It could issue debt (not to exceed 10 times its equity capital) which could be purchased by the Secretary of the Treasury or private interests. The Bank would be required to buy out the Federal interest beginning in 1990 and to pay dividends on Federal stock, if the Bank were profitable. It would be governed by a 13 member board originally controlled by Presidential appointees, but shifting to control by other stockholders as the Federal equity interest declines.

Authorization of \$250 million is provided for a Self-Help Development Fund (\$10 million in 1978) which would be administered in a newly created Office of Consumer Cooperatives in ACTION. The Fund could make capital investment in, or provide interest subsidies to, high risk, low income cooperatives. The Office would also provide technical assistance (financial analyses, market surveys, management training, etc.) financed by Federal appropriations.

The bill was reported by a vote of 28-11 with four Democrats voting with the minority. Subcommittee Chairman St. Germain, who wrote to you on April 27, 1977, expressing his disappointment with the Administration's opposition to the establishment of a Bank, considers this legislation to be his highest priority.

Current Administration Position. Based on your earlier decision to study this issue, the Administration (Treasury) testified in opposition to the establishment of a Bank and Assistance Administration at this time. Treasury proposed legislation that would authorize a two-year, \$20 million pilot project in an existing agency in conjunction with the study you requested.

The testimony indicated that before the Administration could support H.R. 2777, more evidence concerning the need for and cost effectiveness of the new agencies was needed. In particular, much remained "to be learned about (1) the specific unsatisfied financial and nonfinancial needs of cooperatives which the Government should address, (2) the type of assistance which cooperatives most require, (3) the existing government programs which might be expanded or better coordinated to help cooperatives and (4) whether an existing government entity, rather than a new one, is best suited to handle cooperative issues."

Smaller Bank Alternative. This alternative envisions a smaller Bank with a Federal equity investment of \$50 million annually over 5 years, no Federal debt purchases, and limited private sector debt sales.

Alternatives (see Table for comparison)

1. Support H.R. 2777 as reported.
2. Support establishment of a smaller Bank.
3. Maintain current position, support of a pilot project.

Proponents of H.R. 2777 believe coops assist in the achievement of the goals of national economic efficiency, increased competition, redevelopment of depressed regions of the country, and the reaching of desirable social (ownership dispersion) objectives. In their view, the intent of the bill--to enable consumer groups to obtain credit and technical assistance from a dependable source for self-help efforts--is consistent with these goals. They maintain that consumer cooperatives (with an emphasis upon health, legal, housing, and repair cooperatives, as well as consumer goods) are currently unable to obtain adequate credit from existing financial institutions regardless of whether the coop is well established or fledgling, and they often lack the technical expertise needed to launch successful enterprise. Thus, they argue, Federal assistance is needed.

H.R. 2777 proponents believe that the concept of a consumer cooperative bank has worked exceptionally well in the farm credit and rural electrification systems by providing a source of credit designed to meet specialized needs. They assert that the ultimate result of such an activity is to redevelop urban areas by providing a "community" identification and spirit through economic activity. By achieving economies and providing services, benefits flow back to the community where most needed. Finally, they point out that if the bank prospers, most of the Federal funds will be repaid, perhaps with dividends.

In addition to strong consumer and labor support, the original bill was sponsored by 35 Senators and 100 Congressmen. Further, proponents assert that Senators Proxmire and McIntyre are pleased with the actions in the House and want their respective Committee and Subcommittee to give the bill the earliest favorable consideration.

Proponents of the smaller bank recommend that we negotiate to obtain the smallest possible Bank with adequate Federal capitalization to attract private capital: this is estimated to require an annual outlay of about \$50 million. The negotiation would result in (1) a reduction in the total appropriation, and (2) a stretchout of the period of capitalization, which would reduce by \$250 million outlays in the period through FY 1981.

Proponents of the smaller bank believe:

(1) Opposition to the bank is based on the inadequacy of data on (a) the real credit needs of cooperatives, and (b) the degree to which those needs have not been met because of discrimination by banks. It is inherently difficult to quantify the degree to which creditworthy loan applicants are unable to obtain assistance. Proponents of the smaller bank believe, nonetheless, that two years of congressional hearings have suggested that there is evidence of some discrimination, although its magnitude cannot be quantified. In addition, the financing of urban coops has been impeded by (a) a reduction in inner city lending by banks, and (b) lenders' fears of extending credit to not-for-profit associations without a proven record. The Bank would assure these Coops access to credit, but at competitive market rates. Coops could provide a new source of goods in urban areas that have been "redlined" by retail business.

(2) The Domestic Council believes Senate passage is more likely than not, and would negotiate now to gain some political credit for the bill's passage.

Proponents of the current Administration positions maintain that there is insufficient evidence available on the claimed inability of cooperatives to obtain credit from existing financial institutions to justify the establishment of a new Government sponsored Bank and the expenditure of substantial Federal funds (over \$5 billion of Federal funds could be outlaid over 5 years). They want to make sure aid to cooperatives is consistent with existing Federal programs under which cooperatives and their small business competitors can already receive assistance. They note that caution is desirable since H.R. 2777 would reduce credit in other market sectors at a time when expansion should be encouraged.

Proponents have reservations about the capability of consumer cooperatives, ACTION, and the new Bank to use effectively this large infusion of funds. A two year pilot project and your requested study could resolve many of these issues while providing invaluable information with which to design effectively any needed Federal assistance to cooperatives including perhaps a future consumer cooperative bank.

They are also concerned about the effects of another change in an Administration position on those Congressmen who supported the Administration's current position. In this regard, it might be noted that the Administration proposal lost in Committee by a vote of 17-23. It would be advisable to await a clearer picture of the bill's prospects in the Senate before we alter our position (e.g., many small businesses who will feel threatened by the coops will oppose the bill).

Recommendations

Decision

Alternative 1. \$100 million annual equity investment
Maximum 5 year budget impact: \$5.8 B
Favored by: Labor, Agriculture, HUD,
Special Assistant to the President for
Consumer Affairs, ACTION

Alternative 2. \$50 million annual equity investment
Maximum 5 year budget impact: \$300 M
Favored by: HEW, Domestic Council

Alternative 3. \$20 million pilot
Maximum Federal exposure: \$20 M
Favored by: Treasury, CEA, SBA,
Commerce, OMB

NATIONAL CONSUMER COOPERATIVE BANK ACT
FINANCIAL AND ORGANIZATIONAL ALTERNATIVES

	Alternative 1 H.R. 2777 as Reported	Alternative 2 Smaller Bank	Alternative 3 Pilot Project
<u>Treasury Pilot Project</u>	---	---	\$20 M 2 years
<u>National Consumer Cooperative Bank</u>			
. Federal Equity Investment Authorization	\$500 M 5 years (\$100 M in 1978)	\$250 M 5 years (\$50 M Annually)	---
. Maximum Debt/Equity Ratio	10:1	10:1	---
. Authorization for Federal Government Purchase of Bank's Debt	Yes	---	---
. Authority to Issue Loan Guarantees	Yes	---	---
<u>Development Fund/Technical Assistance</u>			
. Self-Help Development Fund Authorizations	\$250 M (\$10 M in 1978)	\$25 M (\$5 M Annually)	---
. Fund Administration and Technical Assistance	New Office in ACTION	Negotiable	Administered by Treasury
<u>Maximum Federal Outlays</u>			
. Assumes Federal purchase of authorized debt and no dividends	\$5,800 M	\$300 M	\$20 M

THE WHITE HOUSE
WASHINGTON

*Bill - call stu + set
y Trigg summary*

ACTION	FYI
X	
X	
X	
X	
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X	
X	

MONDALE
COSTANZA
EIZENSTAT
JORDAN
LIPSHUTZ
MOORE
POWELL
WATSON

ENROLLED BILL
AGENCY REPORT
CAB DECISION
EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

X FOR STAFFING
FOR INFORMATION
FROM PRESIDENT'S OUTBOX
LOG IN/TO PRESIDENT TODAY
IMMEDIATE TURNAROUND

cc Peterson

ARAGON
BOURNE
BRZEZINSKI
BUTLER
CARP
H. CARTER
CLOUGH
FALLOWS
FIRST LADY
GAMMILL
HARDEN
HOYT
HUTCHESON
JAGODA
KING

KRAFT
LANCE
LINDER
MITCHELL
POSTON
PRESS
B. RAINWATER
SCHLESINGER
SCHNEIDERS
X SCHULTZE
SIEGEL
SMITH
STRAUSS
WELLS
VOORDE



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 17 1977

MEMORANDUM FOR THE PRESIDENT

FROM: BERT LANCE
STU EIZENSTAT

Bhu -
Stu

SUBJECT: "National Consumer Cooperative Bank Act" Legislation

The Committee on Banking, Finance and Urban Affairs has favorably reported an amended "National Consumer Cooperative Bank Act" (H.R. 2777). This was one of the five major legislation items proposed to you by the major consumer groups and is supported by labor. You decided not to support this legislation until a study of the proposal was completed. Several agencies have requested that you reconsider this decision in light of recent congressional action.

Original Proposal. The original version of H.R. 2777 would have established a "National Consumer Cooperative Bank" and a "Cooperative Bank and Assistance Administration." The Bank would make direct loans to or guarantee loans made to consumer cooperatives (including housing and consumer goods coops) at market rates. The Bank would receive \$1 billion of Federal equity funding over four years and could also raise capital from members. It could issue debt (not to exceed 20 times its equity capital) which could be purchased by the Secretary of the Treasury or private interests. The Bank would be required to buy out the Federal interest beginning in 1990 and to pay dividends on Federal stock, if the Bank were profitable. It would be governed by a 13 member board originally controlled by Presidential appointees, but shifting to control by other stockholders as the Federal equity interest declines.

The Cooperative Bank and Assistance Administration would administer a federally financed \$250 million Self-Help Development Fund, which could make capital investment in, or provide interest subsidies to, high risk, low income cooperatives. The Administration would also provide to cooperatives technical assistance (financial analyses, market surveys, management training, etc.) financed by Federal appropriations.

Committee Bill. The House Committee reported last week an amended bill that would provide \$500 million of Federal equity funding for the Bank with \$100 million authorized in 1978. The bill was passed by a vote of 28-11 with four Democrats voting with the minority. The debt/equity ratio would be reduced from 20/1 to 10/1, but the Bank would still be authorized to guarantee borrowers' obligations. Funding for a \$250 million Self-Help Development Fund would be restricted to \$10 million in 1978, and administration of the Fund and related technical assistance activities would be placed in a newly created office in ACTION. Subcommittee Chairman St. Germain wrote to you on April 27, 1977 expressing his disappointment with the Administration's opposition to the establishment of a Bank.

Current Administration Position. Based on your earlier decision to study this issue, the Administration (Treasury) testified in opposition to the establishment of a Bank and Assistance Administration at this time. Treasury proposed legislation that would authorize a two-year, \$20 million pilot project in an existing agency in conjunction with the study you requested.

The testimony indicated that before the Administration could support H.R. 2777, more evidence concerning the need for and cost effectiveness of the new agencies was needed. In particular, much remained "to be learned about 1) the specific unsatisfied financial and nonfinancial needs of cooperatives which the Government should address, 2) the type of assistance which cooperatives most require, 3) the existing government programs which might be expanded or better coordinated to help cooperatives and 4) whether an existing government entity, rather than a new one, is best suited to handle cooperative issues."

Smaller Bank Alternative. Establishment of a Bank at a substantially lower Federal cost has also been proposed. If any Bank is to be created now, additional numerous technical changes in H.R. 2777 would be required to make the legislation minimally acceptable to proponents of the current Administration position.

Alternatives (see Table for comparisons)

- 1) Support H.R. 2777 as reported.
- 2) Support establishment of a smaller Bank.
- 3) Maintain current position, support of a pilot project.

Proponents of H.R. 2777 believe coops assist in the achievement of the goals of national economic efficiency, increased competition, redevelopment of depressed regions of the country, and the

reaching of desirable social (ownership dispersion) objectives. In their view, the intent of the bill--to enable consumer groups obtain credit and technical assistance from a dependable source for self-help efforts--is consistent with these goals. They maintain that consumer cooperatives (with an emphasis upon health, legal, housing, and repair cooperatives, as well as consumer goods) are currently unable to obtain adequate credit from existing financial institutions regardless of whether the coop is well established or fledgling, and they often lack the technical assistance needed to launch successful enterprise. Thus, they argue, federal assistance is needed. They believe that the concept of a consumer cooperative bank has worked exceptionally well in the farm credit and rural electrification systems by providing a source of credit designed to meet specialized needs. They assert that the ultimate result of such an activity is to redevelop urban areas by providing a "community" identification and spirit through economic activity. By achieving economies and providing services, benefits flow back to the community where most needed. Finally, they point out that if the bank prospers, most of the federal funds will be repaid, perhaps with dividends. In addition to strong consumer and labor support, the original bill was sponsored by 35 Senators and 100 Congressmen. Further, proponents assert that Senators Proxmire and McIntyre are pleased with the actions in the House and want their respective Committee and Subcommittee to give the bill the earliest favorable consideration.

The second option is to attempt to negotiate: 1) a reduction in the total appropriation, and 2) a stretchout of the period of capitalization, which would reduce outlays in the period through FY'81. The objective would be to agree upon the smallest possible bank with adequate federal capitalization to attract private capital: this would require an annual outlay of about \$50 million, compared to the \$110 million in the present bill. Our support for the bank would be contingent upon successfully negotiating down its cost. But proponents of the smaller bank believe that an annual capitalization of \$50 million is necessary if the financial markets are to have confidence in the stability of the bank, which is necessary if the bank is to repay the seed capital provided by the federal government.

Proponents of the smaller bank make the following policy arguments:

1) Opposition to the bank is based on the inadequacy of data on (1) the real credit needs of cooperatives, and (2) the degree to which those needs have not been met because of discrimination by existing financial institutions. In fact, it is inherently difficult to quantify the degree to which creditworthy loan applicants are unable to obtain assistance. Proponents of the smaller bank believe, nonetheless, that two years of Congressional hearings have shown that there is evidence of some discrimination, although its magnitude cannot be quantified. The failure of the banking lobbies to oppose this legislation suggests that banks may not be anxious to extend credit to

not-for-profit associations without a proven track record.

2) Cooperatives have been successful in rural areas in gaining acceptance (50 million owner-users) and stimulating the local economy. Arguably, the outflow of urban retail business, coupled with reduced bank lending in central cities, suggest the need for new sources of urban credit, as well as new sources of goods and services coops provide.

3) St. Germain's new bill meets a number of Treasury's technical and policy objectives, including: a reduction in FY'78 outlays from \$500 million to \$110 million; a reduction in the borrowing/capital ratio from 20/1 to 10/1; and addition of a requirement that loans be made at competitive market rates. Thus the legislation would not give coops financially advantageous interest rates; it would simply assure access to the credit markets. Further technical changes, nonetheless, should be a condition of support for even a smaller bank.

There are also political arguments:

1) This is Congressman St. Germain's pet project, House passage is assured, and Ralph Nader calls it one of the three most important pieces of consumer legislation in the past generation (perhaps a slight hyperbole). There is reason to believe that an unfavorable Administration position may color Chairman St. Germain's views on the Administration's impending financial reform package, which will include proposals to provide nationwide NOW accounts (interest-bearing checking accounts) and counteract the Federal Reserve's problem of declining bank membership.

2) If the Senate is going to act favorably, a negotiated settlement would be preferable to a veto (Treasury, OMB and the Domestic Council concur on this point). Treasury and OMB regard Senate prospects as uncertain and would defer a decision to negotiate; the Domestic Council believes Senate passage is more likely than not, and that the Administration should share some of the credit.

3) The Administration's two-year \$20 million pilot is not regarded as a compromise since it defers favorable consideration of a real bank for at least two years.

4) In a meeting Thursday with Congressman St. Germain you indicated support for the concept of the coop bank. We can state that the Administration's support for a pilot project meets that commitment, but supporters of the bill will not appreciate that interpretation of your support.

Proponents of a smaller bank believe there is one disadvantage to negotiating now: it requires the reversal of Treasury's public position. Treasury has been singled out for unfair

attack by the bank's supporters, who have never accepted the fact that Treasury has been the Administration's position on this issue.

Proponents of the current Administration position maintain that there is insufficient evidence available on the claimed inability of cooperatives to obtain credit from existing financial institutions to justify the establishment of a new Government sponsored Bank and the expenditure of substantial Federal funds. They want to make sure aid to cooperatives is consistent with existing Federal programs under which cooperatives and their small business competitors can already receive assistance. They note that caution is desirable since H.R. 2777 would reduce credit in other market sectors at a time when expansion should be encouraged. They have reservations about the capability of consumer cooperatives, ACTION, and the new Bank to use effectively this large infusion of funds. A pilot project and your requested study could resolve many of these issues while providing invaluable information with which to effectively design any needed Federal assistance to cooperatives including perhaps a future consumer cooperative bank. They are also concerned about the effects of another change in an Administration position on those Congressmen who supported the Administration's current position. It may be advisable to await a clearer picture of the bill's prospects in the Senate before we alter our position.

Agency Recommendations

- Alternative 1) Favored by: Labor, Agriculture, HUD,
Special Assistant to the President for
Consumer Affairs, ACTION
- Alternative 2) Favored by: Domestic Council, HEW
- Alternative 3) Favored by: Treasury, CEA, SBA, Commerce,
OMB

THE WHITE HOUSE
WASHINGTON

Wait for substitute
a Hackman + from
Sta/Occ

~~Hold~~
THE WHITE HOUSE
WASHINGTON

S. Legeron
says this is part 1
much bigger memo &
should be held for 5th
memo eventually
w/ Si. B

Date: May 16, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Frank Moore *hc*
Jack Watson *concur*
Charles Schultze *hc*

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Esther Peterson memo 5/12 re Consumer Cooperative
Legislation.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: NOON

DAY: WEDNESDAY

DATE: MAY 18, 1977

ACTION REQUESTED:

☒ Your comments
Other: _____

STAFF RESPONSE:

☐ I concur. ☐ No comment.
Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	<input type="checkbox"/> ENROLLED BILL
		COSTANZA	<input type="checkbox"/> AGENCY REPORT
<input checked="" type="checkbox"/>		EIZENSTAT	<input type="checkbox"/> CAB DECISION
		JORDAN	<input type="checkbox"/> EXECUTIVE ORDER
		LIPSHUTZ	Comments due to
<input checked="" type="checkbox"/>		MOORE	Carp/Huron within
		POWELL	48 hours; due to
<input checked="" type="checkbox"/>		WATSON	Staff Secretary
			next day

<input checked="" type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON	<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	BOURNE	<input type="checkbox"/>	LANCE
<input type="checkbox"/>	BRZEZINSKI	<input type="checkbox"/>	LINDER
<input type="checkbox"/>	BUTLER	<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	CARP	<input type="checkbox"/>	POSTON
<input type="checkbox"/>	H. CARTER	<input type="checkbox"/>	PRESS
<input type="checkbox"/>	CLOUGH	<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	FALLOWS	<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	FIRST LADY	<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	GAMMILL	<input checked="" type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	HARDEN	<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	HOYT	<input type="checkbox"/>	SMITH
<input type="checkbox"/>	HUTCHESON	<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	JAGODA	<input type="checkbox"/>	WELLS
<input type="checkbox"/>	KING	<input type="checkbox"/>	VOORDE

Date: May 16, 1977

MEMORANDUM LOGGED

FOR ACTION:

Stu Eizenstat
Frank Moore
Jack Watson
Charles Schultze ✓

FOR INFORMATION:

Date 5/16

Routing

CUS

min
PB

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Esther Peterson memo 5/12 re Consumer Cooperative
Legislation.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: NOON

DAY: WEDNESDAY

DATE: MAY 18, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☒ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Date: May 16, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Frank Moore
Jack Watson
Charles Schultze

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Esther Peterson memo 5/12 re Consumer Cooperative
Legislation.

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TO THE STAFF SECRETARY BY:

TIME: NOON

DAY: WEDNESDAY

DATE: MAY 18, 1977

ACTION REQUESTED:

☒ Your comments
Other: ☐

STAFF RESPONSE:

☐ I concur.

Please note other comments below:

☒ No comment.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Date: May 16, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Frank Moore
Jack Watson ✓
Charles Schultze

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Esther Peterson memo 5/12 re Consumer Cooperative
Legislation.

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TO THE STAFF SECRETARY BY:

TIME: NOON

DAY: WEDNESDAY

DATE: MAY 18, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☒ I concur. *gwr*

☐ No comment.

Please note other comments below:

u/3

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

May 12, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

ESTHER PETERSON

SUBJECT:

Consumer Cooperative Legislation

As an advocate of consumer cooperatives, I welcome federal initiatives which will promote their establishment and well-being. Living in Sweden for four and one-half years, I have seen first hand that coops can serve as yardsticks for a competitive system, without dominating it.

Support of the coop movement is consistent with your domestic program, as coops can provide meaningful opportunity to help revitalize depressed areas of our country. Moreover, given your sensitivity to and concern for "people-oriented" self help programs, perceived opposition to this program could leave you vulnerable to attack by its supporters.

Finally, I believe the amended St. Germain bill (alternative 1) is a bona fide attempt to scale the program down to a size more palatable to the Administration. It sliced the bank's capitalization in half, abandoned creation of a new Cooperative Bank and Assistance Administration, and spread financing for the Self Help Development Fund from one year to five years.

You should consider the possibility that Wall Street may be hesitant to embrace a Bank (a) funded at the lower level proposed in alternative 2, and (b) which administers, in addition, a subsidized loan program (as envisioned in the Self Help Fund) and an assistance program. I am convinced of the need for a Coop Bank and Self Help Fund now, with a funding level sufficient to win the confidence of Wall Street. An expedited OMB-Treasury review (1-3 weeks), done in conjunction with Agriculture, Labor, ACTION, and my office, could produce a realistic funding recommendation. Otherwise, it is possible at this point, given the strong Congressional support enjoyed by this legislation, that a program may well be enacted over Administration objections with terms dictated to us by Congress.

FRANK ANNUNZIO, ILL.
JAMES M. HANLEY, N.Y.
CARROLL HUBBARD, JR., KY.
JERRY M. PATTERSON, CALIF.
BUTLER DERRICK, S.C.
THOMAS L. ASHLEY, OHIO
NORMAN E. D'AMOURS, N.H.
JOHN J. LAFALCE, N.Y.
CLIFFORD ALLEN, TENN.
JOHN J. CAVANAUGH, NEBR.
MARY ROSE OAKAR, OHIO
JIM MATTOX, TEX.

JOHN H. ROUSSELOT, CALIF.
CHALMERS P. WYLIE, OHIO
GARRY BROWN, MICH.
HENRY J. HYDE, ILL.
GEORGE HANSEN, IDAHO
JAMES A. S. LEACH, IOWA

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-FIFTH CONGRESS

WASHINGTON, D.C. 20515

April 27, 1977

ack/despt ltr SE
29 APR 1977

The President
The White House
Washington, D. C.

My Dear Mr. President:

I am gravely disappointed by the Treasury Department's negative reaction to the establishment of a National Consumer Co-Operative Bank and I am concerned that your most talented and knowledgeable appointees with consumer and co-operative backgrounds have been excluded from the discussions on this legislation.

You have appointed some excellent people in the Cabinet and sub-Cabinet positions, and I have applauded these selections in private conversations and public statements. But, their value to you and the public is diminished if the high-handed tactics of the Treasury Department isolate you, your Domestic Council, and the Office of Management and Budget from this expertise.

I requested testimony on this legislation and/or opinions from seven Cabinet Departments, but the action of the Treasury Department effectively closed off their input to the Subcommittee. I now understand that Treasury -- through Assistant Secretary-Designate Roger Altman -- did hold a quickly-arranged meeting on or about April 18 with representatives of several of these Departments. It is my further understanding that Treasury did receive favorable comments on the legislation and that the Treasury Department indicated it supported the concept of a co-operative bank with certain modifications.

Mr. Altman subsequently changed this position and in discussions with the Office of Management and Budget apparently did not carry forward the positions of the other Departments.

These changes were made without further consultation with the other Departments and the people most intimately acquainted with consumer and co-operative issues. I am appalled that apparently people such as Secretary of Agriculture Bob Bergland and his highly capable Assistant Secretary, Carol Tucker Foreman, who has given such strong support to this legislation in previous years, were not consulted. I am equally surprised that the Secretary of Labor, Ray Marshall, who has done extensive studies on co-operatives and the poor was not brought in and that specific advice was not sought by Treasury from people such as Assistant Secretary of Housing and Urban Development Geno Baroni, who has had long experience with co-operatives in inner-city neighborhoods.

There is no evidence that your own Consumer Advisor, Mrs. Esther Peterson, had been consulted before the Treasury announced its position. Mr. Altman told the Subcommittee that he did not know Mrs. Peterson's position. In fact, Mr. President, she has been one of the staunchest supporters of a National Consumer Co-Operative Bank and last year she stated:

"The successes of co-operatives in the fields of housing and health -- areas where costs have risen so rapidly -- point to the need for many more such self-help efforts. Sound financing and technical assistance such as that which would be provided by the National Consumer Cooperative Bank is urgently needed to make such development possible."

Despite the Treasury's insistence on its position, one of the witnesses, Assistant Secretary of Housing and Urban Development Geno Baroni did appear, but was forced to present testimony "unofficially." But, he did give the Subcommittee a beautiful and eloquent insight into the needs of the inner-city neighborhoods and the value of co-operatives. You should, indeed, commend Msgr. Baroni for his testimony helped greatly to ameliorate the anger and disappointment felt toward your Administration by the large crowd of consumer and co-operative representatives who sat in stunned silence while the Treasury's Roger Altman expressed his doubts about the need for a co-operative bank.

In contrast to Mr. Altman's suggestion that we study the problem for a few more years, Msgr. Baroni spelled out the immediate need:

"...I do believe again that the consumer movement and co-operatives are a way of getting people together, not for more government really, but for less...and to help people to help themselves. ...I believe that we do need new vehicles to help people help themselves.

People don't have many options. So I am saying all the expertise we have and all the expertise we need, cities are in desperate need and working people and lower income people are in need at the local level for a variety of resources. ...I think there is a need. I'm not sure the people at Treasury -- maybe they know better than I do -- they know the government better, maybe the people at HUD do too, but the need is fantastic, whether it's Buffalo or Providence."

Mr. President, it is sad indeed that Monsignor Baroni had to present this as an "unofficial" statement while your Administration's "official" position was being expressed by a 31-year old former investment banker with no known experience or knowledge of co-operatives.

I am extremely disappointed that my Subcommittee was left with only the position of Mr. Altman and not the expertise of the Petersons, the Sam Browns, the Baronis, the Bob Berglands, the Carol Foremans, the Ray Marshalls and others who were brought into your Administration because they understood people and their needs. This simply is not fair to the millions of hard-working Americans who participate actively in consumer and cooperative organizations across this nation and who place such great faith in you.

Mr. President, I know that I do not have to explain co-operatives to you. You and your family have been involved in co-operatives in Georgia for many years and you are well aware of the importance of Federal seed money for rural electric and farm co-operatives. It is essential that we carry this concept forward to our urban areas and that we give consumers a freedom of choice in the marketplace and an opportunity to participate in economic decision-making. If we are to eliminate the need for welfare and endless grants, we must provide people with a chance to help themselves and this co-operative bank can do just that.

Throughout these discussions, I have indicated my willingness to sit down and talk about the budgetary problems and related issues once we could have an agreement on the basic concept of a bank to promote self-help co-operative enterprises. My efforts to negotiate on these points have not been picked up by Mr. Altman and his colleagues. Instead they have given us a take it or leave it "pilot project" proposal which will prove little and waste much. It has no bearing on the need for a consumer co-operative bank.

THE PRESIDENT WAS SEEN.

Memo to the Speaker

Re Minimum wage.

Biemiller called today to say that on miniumu wage the President has proposed \$2.50 and 50 per cent of indexing. Labor has asked for \$3 and 60 per cent of indexing. Biemiller says obvious compromise is to split the difference on \$2.75 and 55 per cent of indexing. He says this is acceptable to Labor, Dent, and Byrd.

Electostatic Copy Made
for Preservation Purposes

THE PRESIDENT'S FARM BILL

AGRICULTURE BILL

9
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The budget controversy with respect to the farm bill involves the commodity price support levels. The President's original proposal had virtually no support on the Committee. So the President sent up a revised recommendation of \$2 billion for these programs. As reported from the House Agriculture Committee \$2.3 billion is provided. The Senate passed bill provides \$3.9 billion.

Only by fighting tooth and nail was Tom Foley able to hold down the Committee's authorization. The English amendment which would have boosted the wheat support price and opened the floodgates to hikes in other commodities failed by a single vote.

The House bill is clearly the best the President can do. If the President indicates that he would veto the Committee level, Tom Foley is certain that the House would respond by passing a bill closer to the Senate level.

Tom Foley deserves a lot of credit for holding the line, despite substantial pressure from his own district. He is the President's strongest card. In his view the President should stay loose as to the Committee bill and make a big push for the House position in Conference.

ENERGY BILL

The bill is moving its way through the standing committees under pressure of the July 13th reporting deadline. The Dingell Subcommittee begins markup tomorrow. Ways and Means begins next week.

Generally the Administration has not done as good a selling job within the House as they might have. Lud Ashley has had particular criticism for Schultze, Lance and Blumenthal, who have been reluctant to give estimates as to the specific consequences of inaction.

It is now clear that the President's specific proposals will be substantially reworked by the Committees. The Hearings clearly demonstrated that the Administration did not have adequate background analysis for many of its proposals. But the Committees will not rewrite the legislation in ways that will significantly diminish the energy savings. The dispute is as to approaches - not goals.

Here are my impressions as to where various pieces of the President's plan stand:

NATURAL GAS: The President proposed maintaining controls on natural gas while raising the price to \$1.75 from its current \$1.44. Last year the House barely defeated an attempt to decontrol gas prices entirely. Dingell's subcommittee now appears likely to report decontrol. The only prospect of retaining controls will be at a substantially higher price - somewhere over \$2.00.

GAS TAX: Ways and Means could report the gas tax. But they feel certain that it would not be approved by the House. So in all likelihood it will be killed in committee. It might be possible to pass a scheme providing standby authority for just two or three years in the event we fail to meet consumption targets and subject to Congressional veto.

GAS GUZZLER TAX: There is great concern that this tax would subsidize foreign car manufacturers. The Ways and Means Committee is likely to approve the tax but not the rebate. If so, they might provide that the revenues raised be put in an energy development trust fund. Some of the trust money might be made available for mass transit. In the ad hoc committee there will likely be a proposal to mandate better car mileage whether as a substitute for, or in addition to, the tax.

INSULATION: By all indications the insulation industry is in no position to meet the demand that would be created under the President's proposal. It also seems unfair that prosperous taxpayers would be able to write off a portion of insulation expenses while somewhat less prosperous Americans would only qualify for loans.

THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Interesting Notes from the
Speaker

THE WHITE HOUSE
WASHINGTON

Mr. President:

These are the papers that you
requested Frank to copy last
night.

Rick (wds)

THE WHITE HOUSE
WASHINGTON

ACTION
FYI

MONDALE
COSTANZA
EIZENSTAT
JORDAN
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POWELL
WATSON

ENROLLED BILL
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Comments due to
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next day

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B. RAINWATER
SCHLESINGER
SCHNEIDERS
SCHULTZE
SIEGEL
SMITH
STRAUSS
WELLS
VOORDE

June 1, 1977

MEMO TO: The Speaker
FROM : Irv Sprague
SUBJECT: Rescissions and Deferrals

Title X of the Congressional Budget and Impoundment Control Act of 1974 (PL 93-344) creates a safety valve under which the President can sign appropriation legislation and then act to delay or stop spending on specific segments of the measure.

\$1.2 billion in appropriations has been rescinded under this process since enactment of the Act.

A rescission action requires only a simple majority of both House and Senate.

Rescission

When the President decides not to use all or part of the money which the Congress has provided for a program, he must send a rescission message to Congress. The House and Senate then have 45 days in which to approve the President's proposal through a rescission bill cancelling the budget authority previously made available. This bill must be passed by the House and the Senate and signed by the President. If this is not done within 45 days of the date of the Presidential message containing the proposed rescission (the days during which either House or Senate are not in session for more than three continuous days are not included in the 45-day count), the money must then be made available for obligation.

Deferral

When the President proposes to delay spending for some project or program for a period of time not beyond the end of the fiscal year, he must send a budget deferral message to the Congress.

The President may then defer spending according to his proposal unless and until either the House or Senate passes an impoundment resolution disapproving the proposed deferral. As opposed to the rescission process, this requires action by only one House.

There presently is pending just one rescission proposal:

\$126,212,000 for shipbuilding under the Defense Department.

Summary of rescission recommendations:

Agriculture - 30 requests totaling \$1,536,251,501. Two approved totaling \$17,856,470.

Defense - 18 requests totaling \$1,284,917,000. Sixteen approved totaling \$794,705,000.

Foreign Aid - 2 requests totaling \$168,250,000. One approved totaling \$41,500,000.

HUD-Independent Agencies - 11 requests totaling \$1,158,020,000. Five approved totaling \$19,449,000.

Interior - 12 requests totaling \$300,201,092. Seven approved totaling \$235,363,000.

Labor-HEW - 52 requests totaling \$3,176,755,378. None approved.

Public Works - 4 requests totaling \$50,200,000. One approved totaling \$40,000,000.

State-Justice-Commerce-Judiciary - 24 requests totaling \$237,674,704. Fourteen approved totaling \$50,749,704.

Transportation - 5 requests totaling \$133,246,000. One approved totaling \$15,000,000.

Treasury-Post Office-General Government - 12 requests totaling \$57,937,900. Seven approved totaling \$26,552,900.

Total rescission requests: \$8,103,453,575
Approved: \$1,241,176,074

Total deferral requests: \$19,119,879,312
Senate disapproved: \$ 9,328,169,441
House disapproved: \$ 422,613,430

June 1, 1977

MEMO TO: The Speaker
FROM : Irv Sprague
SUBJECT: Water Projects

The President proposed deletion of 18 water projects and modification of 5 others.

The House Public Works Appropriations subcommittee has reported a bill which does the following:

In two instances the President's request is met:

1. Grove Lake, Kansas, is eliminated. (Keys)
2. Central Arizona Project is modified to eliminate the Orme, Hooker or Charleston dams. (Udall, Stump, Rhodes)

In four instances the President's request is partially met:

1. Auburn-Folsom, California, funds are subject to completion of an earthquake hazard study. (Johnson, McFall, Krebs)
- **2. Oahe, South Dakota, funded with instructions to study alternate solutions. (Pressler, Abnor)
- **3. LaFarge Lake, Wisconsin, funded with instructions to consider a dry dam concept rather than a lake which might have water quality problems. (Baldus)
4. Garrison Diversion, North Dakota, funded with restriction on any drainage into the Souris River basin and a prohibition against any impact on Canadian waters. (Andrews)

The remaining 17 projects are recommended for funding unchanged:

1. Applegate Lake, Oregon (Weaver)
2. Atchafalaya River, Louisiana (Treen, Boggs)
3. Bayou Bodcan, Louisiana (Boggs, Waggonner)
4. Cache Basin, Arkansas (Alexander, Tucker)
5. Hillsdale Lake, Kansas (Skubits)
- **6. Lukfata Lake, Oklahoma (Watkins) (Albert)
- **7. Meramec Park Lake, Missouri (Ichord, Burleson)
8. Russell Dam, Georgia (Jenkins) (all of Georgia) Butler opposed
9. Tallahala Creek Lake, Mississippi (Whitten, Lott)
10. Yatesville, Lake, Kentucky (Perkins)
11. Columbia Dam, Tennessee (Gore, Beard)
- *12. Fruitland Mesa, Colorado (Evans)
- *13. Savery-Pot Hook, Colorado (Johnson, Evans)
14. Narrows Unit, Colorado (Johnson, Evans)
15. Mississippi River, Louisiana (Boggs)
16. Tensas Basin, Arkansas (Boggs, Huckaby, Waggonner)
17. Bonneville Unit, Utah (McKay, Marriott)

* - Maybe eliminated in Senate

** - Senators oppose. Likely to be eliminated in Senate

This will lead to a tough public conference.

The bill, expected to reach the House Floor June 13, contains a total of \$10,221,246,000--or \$136,865,000 under the budget request.

Included are funds for the Corps of Engineers and Bureau of Reclamation, plus energy research and development funds and various power administration's.

A total of 506 separate planning or construction projects are included in the legislation, reaching into every section of the nation.

The President's objections go to projects he described as "unsupportable on economic, environmental or safety grounds."

The House figure is \$213 million over the budget request for fiscal 1978 for water project planning, construction, investigations, operation and maintenance.

The President also objected to the 12 new starts.

Key to the bill may be the Clinch River breeder reactor. Committee gave the President what he wanted--\$33 million for design and contract liquidation.

McCormack, Teague, Flowers will be offering amendments to add \$117 million for construction. Not yet passed authorizing committees.

If the committee position holds on the breeder reactor and if the conference holds on additional Senate water project deletions or modifications, the bill should be signable.

Title X of the Congressional Budget Act of 1974 (Public Law 93-344) is entitled the "Impoundment Control Act of 1974."

The Act recognizes two types of impoundments:

1. Deferrals.
2. Rescissions.

A deferral of budget authority includes the withholding or delaying the obligation or expenditure of budget authority for projects or activities.

A rescission refers to the cancellation of budget authority. While in general a deferral applies only to funds available during a current fiscal year, a rescission, if supported by Congress, results in a permanent termination of budget authority.

Under the Act the President must notify Congress whenever he impounds funds. He makes this notification by a special message stating the reasons for his action. If he proposes to defer funds, such deferral continues in effect unless the House or the Senate disapproves of the deferral. The Act provides a privileged, expedited procedure for bringing a deferral resolution to the floor of the House or Senate if the appropriate committee of the House or Senate has not reported it before the end of a period of 25 days of continuous session.

Budget authority which the President proposes to rescind, on the other hand, must be made available for obligation or expenditure unless Congress passes and sends to the President a rescission bill; that is, a bill which rescinds in whole or in part budget authority which the President has impounded under the Act. The time period within which Congress must act on such a rescission bill is 45 days of continuous session. If Congress does not complete action within this period, the money must be obligated.

"Days of continuous session" do not include periods where either House is adjourned for more than three days. It follows that the proposed July and August recesses would be excluded from such computation. If Congress should adjourn sine die before the end of the 45-day period, the time begins to run again at the beginning of the next regular session.

If the President defers budget authority for a specific project, the Congressional disapproval procedure applies to the whole of that deferral. Under the Act Congress cannot disapprove of a part of a proposed deferral. Congress, however, can rescind all or part of the budget authority which the President proposes to rescind.

June 1, 1977

MEMO TO: The Speaker
FROM : Spencer Smith
SUBJECT: Department of Energy, H.R. 6804 (House Report 95-346).

*The bill establishes a new cabinet position and new department -- Department of Energy.

*Agencies transferred to the New Department -- FEA FPC, ERDA, functions relating to energy are transferred from Interior, Defense, ICC (pipeline), Commerce and HUD. Funding will be \$10.6 billion.

*Bill has four units that cannot be abolished by Secretary:

- (1) Federal Energy Regulatory Commission -- sets rates for utilities and gas pipelines,
- (2) Economic Regulatory Administration Under Secretary -- sets well-head natural gas prices -- regulates and allocates petroleum,
- (3) Energy information administration -- collect and analyze data on fuel demand and supply, and
- (4) Inspector General -- enforcement and investigation.

*Position of the Administration supports the Bill as passed by the Committee on Government Operations.

*Amendments to be proposed on Floor:

Speaker will help { MOSS--*Strike Secretary's authority to set well-head prices on natural gas and give to Federal Energy Regulatory Commission.

*Limit Secretary's authority to issue general regulations without review of Energy Regulatory Commission.

*Office of Energy Research in the Department of Energy.

CONYERS--*Establishes the Department of Energy as the sole importer of foreign petroleum and petroleum products.

BROWN (Ohio)--*Place Nuclear Regulatory Commission in Department of Energy.

DODD--*Establish an Office of Technology Transfer--information available to public.

DINGELL--*Change administrative procedures in Title V.

June 1, 1977

MEMO TO: The Speaker
FROM : Irv Sprague
SUBJECT: Vetoes

It is appropriate at this time to analyze the history of vetoes and veto overrides to determine if there is any relevant pattern in today's context. The pattern is clear. On issues that the Congress really cares about, vetoes are overridden.

There have been 1226 vetoes since 1933 -- 44 years. Of these, 254 were pocket vetoes, 741 were private bills, 117 were with the President and the Congress in opposing parties, most of the others carried no national significance.

We therefore examine the remaining 29 public bills with the President and the Congress in the same party, and with an override attempt.

Thirteen of the 29 were overridden, with topheavy votes, all on issues of national significance, all on matters where there was a broadly based strong feeling in the Congress about the issue.

I believe the Labor-HEW Appropriations and the Public Works Appropriations both clearly fall in this category. It is too early to tell about the Farm Bill.

If the Congress were to override any of these the damage to Carter would be considerable. This argues strongly for an accommodation. Even an override attempt that failed would be damaging as we go forward with energy, tax reform, health insurance, reorganization and other critical legislation.

It is significant that for a quarter century Democratic Presidents and Democratic Congresses have been able to avoid most vetoes and all veto override attempts by working together on issues of national concern. Kennedy and Johnson had few vetoes and no veto override attempts. Strong differences of opinion were worked out.

We remember too well the Ford-Nixon years when the Congress had to resort to 49 override fights and 17 overrides of public bills. One, the Labor-HEW Appropriation was overridden three times. Votes:

<u>House</u>	<u>Senate</u>
289-114	77-16
310-113	70-24
312-93	67-15

The people voted to stop this stalemate.

If for political reasons the Republicans should decide to help sustain a veto, the damage to relations between the President and the Democratic Congress would be compounded. Remember, we have 7½ years to go.

Here is the record of Democratic Presidents with a Democratic Congress:

CARTER, 4 months, None

JOHNSON, 5 years, 30 vetoes, including 16 public bills. No measures of national significance. NO override attempts.

KENNEDY, 3 years, 21 vetoes, including 9 public bills, no measures of national significance. NO override attempts.

TRUMAN, 6 years, 175 vetoes, including 64 public bills. Fourteen override attempts, five successful;

	<u>HOUSE</u>	<u>SENATE</u>
1. VA outpatient treatment.	321-12	58-3
2. Internal Security Act.	286-48	57-10
3. VA autos for disabled.	223-53	55-10
4. VA Pensions.	318-45	69-9
5. Immigration Law.	278-112	57-26

The nine unsuccessful attempts: agriculture deferment, tidelands oil, income tax reduction, war contracts, post office field service, nationality act, land acquisition, labor fact finding boards, amend emergency price control act.

ROOSEVELT, 12 years, 635 vetoes, including 178 Public bills. Fifteen override attempts, eight successful:

	<u>HOUSE</u>	<u>SENATE</u>
1. Appropriations for veterans and Federal employees compensation.	310-72	63-27
2. Payment of World War adjusted service certificates.	326-61	76-19
3. Provide insurance for ex-servicemen.	372-13	69-12
4. Extend for one year 3½% interest rates on Federal land-bank loans.	260-98	71-19

	<u>HOUSE</u>	<u>SENATE</u>
5. Federal land-bank loan interest rates.	244-88	57-18
6. Relief of Spanish-American War veterans.	275-83	76-3
7. Alteration of certain bridges.	324-68	65-17
8. Prevention of strikes in defense industries.	244-108	56-25

The seven unsuccessful attempts: war compensation, pocket vetoes, disputes settlement, Civil War widows pensions, Federal Aid Road Act, Commodity Credit Corporation (twice).

NOTE: Public Works Bill House Floor June 13. Appropriations Committee expects to have conference report filed before 4th of July recess. House subcommittee reduced funding and cut back on some projects but kept in all controversial items. Senate may eliminate some.

Labor-HEW Bill House Floor June 15. Conference report may also be filed before 4th of July recess. House subcommittee provided \$1.4 billion more than budget request. Senate outlook unclear.

PRESIDENT	TIME IN OFFICE	TOTAL	Public Bills		Private Bills		TOTAL	Public Bills	Private Bills	TO
			Regular	Pocket	Regular	Pocket				
CARTER	4 MOS.	0					0			
FORD	2 1/2 YRS.	66	46	16	2	2	28	28	0	
NIXON	5 1/2 YRS.	43	26	14	0	3	21	21	0	
JOHNSON	5 YRS.	30	8	8	8	6	0	0	0	
KENNEDY	3 YRS.	21	4	5	8	4	0	0	0	
EISENHOWER	8 YRS.	181	36	46	37	62	10	10	0	
WITH REPUBLICAN										
83 rd CONGRESS		52	8	11	13	20	0	0	0	
WITH DEMOCRATIC										
CONGRESSES		129	28	35	24	42	10	10	0	
TRUMAN	8 YRS.	250	62	36	118	34	24	23	1	
WITH REPUBLICAN										
80 th CONGRESS		75	17	17	25	16	9	9	0	
WITH DEMOCRATIC										
CONGRESSES		175	45	19	93	18	15	14	1	
ROOSEVELT	12 YRS.	635	49	129	323	134	17	15	2	

DIFFERENCE OF HOUSE LABOR-HEW BILL AS REPORTED
OVER OR UNDER THE PRESIDENT'S REQUEST

<u>President's Request</u>	<u>Budget Authority Dollars in Billions</u>
	60.4
Department of Labor	- 0.7
Health	+ 0.5
Education	+ 1.1
Public Assistance and related	- 0.4
Human Development	+ 0.2
Other	+ 0.2
Subtotal: Changes from President's request	<u>(+ 0.9)</u>
House Labor-HEW Bill as Reported	61.3

Explanation of Changes

Department of Labor - Reduction reflects the fact that funding requirements for Public Employment were included in the recently enacted Economic stimulus appropriations act.

Health - Largest increases include \$166 million for NIH (including restoration of certain programs to the FY 1977 level and an increase for new and competing research grants) and \$209 million for the Health Resources Administration. Remainder is a number of increases for smaller programs.

Education - Restoration of impact aid and National Direct Loan program to current law levels plus increases of \$0.3 principally for Title I and handicapped.

Public Assistance - Primarily reflects a reduction for Medicaid, which is based on the latest HEW report on projected expenditures.

Human Development - Increase of \$0.1 billion for Headstart and \$0.1 billion for Aging programs.

Other - Increase of \$125 million for the Community Services Administration, primarily to restore funding to current levels. Increase of \$25 million for the corporation for Public Broadcasting.

THE PRESIDENT'S SCHEDULE

Sunday - June 5, 1977

9:50 Depart South Grounds via Motorcade
 en route the First Baptist Church.

10:00 Sunday School.

11:00 Morning Worship Service.

FOR
THE PRESIDENT

Stu-
Interesting
notes for
Speaker
J

Call Hon Dellums
done
J

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

June 4, 1977

Jody Powell -

**The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.**

Rick Hutcheson

Re: Article on John Pennington

THE WHITE HOUSE
WASHINGTON

ACTION		
FYI		
	MONDALE	ENROLLED BILL
	COSTANZA	AGENCY REPORT
	EIZENSTAT	CAB DECISION
	JORDAN	EXECUTIVE ORDER
	LIPSHUTZ	Comments due to
	MOORE	Carp/Huron within
X	POWELL	48 hours; due to
	WATSON	Staff Secretary
		next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON		KRAFT
	BOURNE		LANCE
	BRZEZINSKI		LINDER
	BUTLER		MITCHELL
	CARP		POSTON
	H. CARTER		PRESS
	CLOUGH		B. RAINWATER
	FALLOWS		SCHLESINGER
	FIRST LADY		SCHNEIDERS
	GAMMILL		SCHULTZE
	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE

*July -
see me
J*

opinion

Bill Shipp

Whatever Happened to a Reporter Named John Pennington?

Inquiry to the White House:
Whatever happened to John Pennington? Ask President Carter. He may recall the name.

I tried all day yesterday to track down Pennington but no luck. I wanted to tell him he apparently had been turned down for another federal job.

I also wanted to play a little one-upmanship on my colleagues. Some of them have written long profiles of the "new" Carter crowd. Others have written about the "old" Carter crowd. They talk about the people who were with Carter before the Pennsylvania primary. The ones who think they are really in the know like to reel off the list of top campaign workers in Carter's 1970 gubernatorial contest.



But they are always out done by those who know who was with Carter in 1946. Some even know how Charlie Kirbo saved the day for Carter in court by proving that Carter had been cheated out of winning a state senatorial seat.

But no one ever seems to mention John Pennington. Before Jordan and Powell, before Kirbo — there was Pennington. Pennington, the former Atlanta Journal city editor and super-grade investigative reporter, may hold the biggest political IOU of the lot.

Without Pennington Jimmy Carter might still be in Plains, a bitter man feeling that after all these years he had been cheated out of entering politics because no one would pay any attention to his complaint.

In 1962 Jimmy Carter made his first bid for election to a state post. He wanted to be a state senator, and he ran against one Homer Moore. When the ballots were counted, Moore was declared the winner and Carter cried "foul."

Carter took his challenge to the State Democratic

Executive Committee who listened politely then certified his opponent as winner. Carter went to the Columbus papers which took the position that Carter was a poor loser. He then came to an Atlanta paper (which shall remain nameless here) which said, in so many words, so what?

And he went to John Pennington, a native of Andersonville which is near Carter's hometown of Plains, and asked for help. Pennington at the time was one of the best known newsmen in Georgia and he had his pick of assignments. Carter's little problem did not sound like much of a scandal on the face of it.

But Pennington believed in Carter. He dug into Carter's allegation and found the most flagrant case of ballot box stuffing since dead people were voted in Telfair County a decade or so earlier.

Pennington's stories in the Journal focused statewide attention on the obscure senatorial election and sent Democratic bigwigs scurrying for cover. In one instance, a ballot box in Quitman County contained 100

more ballots than had been cast on election day. Pennington dogged the story for days. Eventually Carter got his recount, took his senate seat and was off and running in a brand new political career.

Pennington a few years later drifted out of the newspaper business and away from Atlanta. He lived on Cumberland Island for a while and may still call that home.

Now at age 52, Pennington apparently is ready to come in from the cold. And he looked to the Carter administration for a little help. First he reportedly looked around the Department of Interior for a job but nothing came of that. Then he interviewed as a national public affairs director of the Environmental Protection Agency, but was told he didn't qualify. He wanted a woman in the job. Then there was an NEA post open but he apparently missed out on that too.

Nobody seemed to know the name John Pennington nor recalled how he had helped Jimmy Carter win back when.

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THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat -

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the President's outbox. It is
forwarded to you for appropriate
handling.**

Rick Hutcheson

Re: Cargo Preference Legislation
(H.R. 1037)

THE WHITE HOUSE
WASHINGTON

ACTION			
FYI			
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
		EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
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		MOORE	Carp/Huron within
		POWELL	48 hours; due to
		WATSON	Staff Secretary
			next day

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	IMMEDIATE TURNAROUND

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	BRZEZINSKI
	BUTLER
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	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE PRESIDENT HAS SEEN.

Cargo Preference Legislation (H.R. 1037)

Sta-
Assess
J.C.

Congressman Murphy (D.-N.Y.) has introduced a bill which would require that 20 percent of the oil imported by the U.S. be transported on U.S. flag ships. By 1980, the preference percentage would increase to 30 percent.

Cargo preference legislation passed Congress in the last session but was vetoed by the Ford Administration. It apparently has strong support in the committees having jurisdiction over maritime matters.

World-wide, there is a large surplus of tankers; the cargo preference legislation would create an artificial demand for construction of additional tankers in the U.S.

New ships built as a result of cargo preference legislation would balloon spending under the various subsidies that the maritime interests now enjoy--construction differential subsidies, operating subsidies, loan guarantees, and special tax shelter benefits. A ¹⁹⁵²~~1948~~ study by the Treasury Department reported that the cost to the Government in lost tax revenues from the special tax provisions was eight times the cost of the operating subsidies paid.

Comments on the four main arguments used in support of the legislation are as follows:

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- o U.S. tankers are safer. Comment. Even if U.S. ships are safer than foreign ships, 70 percent of U.S. oil imports would still be transported on foreign ships.
- o U.S. tankers could be made available for military support. Comment. The tankers likely to be built for the cargo preference trade will be too large and cumbersome for effective military support in time of war.
- o U.S. tankers can be depended upon for civilian supply during crisis or war. Comment. It is not apparent that the U.S. needs control over tankers when it does not have control over foreign oil supplies. However, if U.S. flag ships are essential for this purpose, U.S. owned, foreign flag tankers could be repatriated.
- o A U.S. tanker construction program would create jobs. Comment. If warranted, jobs for U.S. seamen could be created by repatriating U.S. owned, foreign flag tankers. However, jobs created in the shipbuilding industry by H.R. 1037 would be a one-time surge leaving a problem for the future.

As drafted, H.R. 1037 would require construction of at least 100 tankers within the next few years despite a world-wide surplus. This could divert present shipyard capacity from the Navy's shipbuilding program to tanker construction. In

addition, H.R. 1037 would require a substantial increase in the Commerce Department's budget as present law authorizes the Government to subsidize up to 50 percent of the cost of each ship constructed. Federal ship mortgage guarantees would also increase significantly.

U.S. firms own or control over 200 foreign-built tankers,
less than 15 years old. When added to our present fleet these ships could transport over 50 percent of U.S. oil imports. Moreover, most of these foreign-built ships are of a type which could be used for military support in wartime.

What can we do? To repatriate these vessels U.S. restrictions in H.R. 1037 and existing merchant marine statutes impeding repatriation and restricting certain cargoes to U.S. built ships would have to be removed--at least until a sufficient number of ships have been repatriated.

As an alternative to cargo preference legislation, repatriation would:

- o Avoid the economic, budgetary and warship construction impact problems inherent in H.R. 1037.
- o Create jobs for U.S. seamen and increase U.S. control of oil imports transportation faster than any other method.
- o Assure a gradual increase in long term demand for the U.S. shipbuilding industry. Repatriated ships would be replaced by U.S. built ships.

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THE WHITE HOUSE
WASHINGTON

June 4, 1977

Stu Eizenstat -

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the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Patents

Independent Research & Develop-
ment (IR&D)

Waiver of Dual Compensation for
Retired Military Officers

cc Terry Fastow -OMB

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
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	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE

Patents

Stu - I Advise
agree.
on both. J

By statute the Government generally has title rights to patents developed at Government expense. Agency heads, however, have the authority to waive these rights.

President Kennedy issued a presidential patent policy; President Nixon subsequently revised it. There is sufficient latitude in these policy statements to enable agency heads to justify waiver of patent rights as being in the national interest.

With large sums of Government money being invested in the field of defense and energy and space, the present patent policy results in large companies, who get the lion's share of the Government contracts, to develop monopoly positions at Government expense.

All members of the public should have equal rights to patents developed at public expense. Waivers of Government rights to patents developed at Government expense should be limited to those rare cases where there is no other way of obtaining essential work or in cases where ~~the Government~~ enters into a cost sharing arrangement with a contractor who puts up more than 50 percent of the development costs.

THE PRESIDENT HAS SEEN.

Waiver of dual compensation for retired military
officers

Under so-called dual compensation statutes, retired regular officers forfeit a large part of their retirement pay if they subsequently accept employment from the Government. Several agencies, including NASA and ERDA, have waived the dual compensation provisions and hired retired flag rank officers to super-grade positions in the Civil Service. These favored few receive a higher total salary from the U.S. Government than Members of Congress and cabinet-level officials.

As part of its battle against double-dipping, the Administration should issue instructions precluding waiver of dual compensation limitations.

Stu-
Can we do
this?
J

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for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

June 4, 1977

Jody Powell -

**The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.**

Rick Hutcheson

Re: Presidential Energy Information
"Hotline"

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
		EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
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	GAMMILL		SCHULTZE
	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE

THE PRESIDENT HAS SEEN.
THE WHITE HOUSE
WASHINGTON

*Jody
hold
J*

MEMORANDUM FOR THE PRESIDENT

FROM: JODY POWELL

SUBJECT: PRESIDENTIAL ENERGY INFORMATION "HOTLINE"

Premise:

1. Due to the complicated and voluminous nature of the National Energy Act, there exists a good deal of misinformation and misunderstanding of the Act's intent and content.
2. The average American citizen has, to this point, derived the bulk of his/her information concerning the Act from media coverage. He/she is therefore most likely to make up his/her reaction to those parts of the Act which have received the most coverage, e.g., gas guzzler tax, standby gas tax.
3. Initial reaction to the concept of a National Energy Plan has been overwhelmingly favorable.
4. It is to the advantage of the President to have an informational resource readily available to the public to answer inquiries regarding the impact of the Act on their lives.
5. That capacity does not currently exist.

Based on this reasoning, we propose the following:

1. That a national toll-free energy hotline be established to provide this service to the public. In order that the service be a truly effective device for public outreach, and for it to receive prominent media coverage to stimulate public usage, it would be a project mandated by the President and operated out of the EOB.
2. That an interagency group composed of personnel drawn from FEA, ERDA, FHA, SBA, Treasury, Interior, State, HUD, HEW, EPA, and DOT be formed to handle what would basically be a "boiler room" operation. We anticipate an initial need for 10 operators per shift, utilizing 2 shifts per day beginning at 7:00 a.m., and continuing to 10:00 p.m.

3. A fact sheet is being prepared with answers to frequently asked questions.

A follow-up mechanism would be designed so that questions not readily answerable by any given operator would be referred to a member of the Energy Policy Planning group, or other designated individual, for response. Turnaround time for this exercise should be no more than 24 hours. It must be recognized that a certain risk is involved from a political standpoint if the President takes the lead on this. It is possible that Congress will perceive this project as an attempt to "sell" the National Energy Act to the American people. As such, care will be taken both in the operation of the project boiler room and in the public presentation of the project to avoid any appearance that this is a lobbying effort. It must be clearly a public information outreach program designed to educate the public about energy goals, problems and conservation. The Justice Department and White House Counsel should be able to work up an applicable definition of "lobbying" which can be given to the phone operators for guidance.

Funding

It is recommended that the appropriations for this project come from the Office of the President, since it would be a "Presidential Energy Hotline" crossing agency lines. This would also avoid the possible congressional criticism were ERDA funds to be assigned.

The cost of a 60-day initial period of operation beginning June 2 would be \$37,505.00.

THE WHITE HOUSE
WASHINGTON

May 31, 1977

*Mark -
Any
Comments?*

The Vice President
Midge Costanza
Stu Eizenstat
Hamilton Jordan
Bob Lipshutz
Frank Moore
Jack Watson

Re: Presidential Energy Information
"Hotline"

A shorter version of the attached memorandum concerning the "Hotline" has already gone to the President at Jody's request. If you have any comments, please get them to me.

Rick Hutcheson

Rick -- I think it should be made clear at some point to the Pres that Hamilton's office was involved in the planning of the Hot Line, as a very visible, but not expensive, attempt to involve grassroots interest, and help to build an "energy constituency." Needless to say, we are in favor of the Hot Line concept. Aside from the obvious positives, it also is a mechanism of integration of the other depts. in the energy program.

Mark

6/4

THE WHITE HOUSE
WASHINGTON

May 31, 1977

The Vice President
Midge Costanza
Stu Eizenstat
Hamilton Jordan
Bob Lipshutz
Frank Moore
Jack Watson

Re: Presidential Energy Information
"Hotline"

A shorter version of the attached memorandum concerning the "Hotline" has already gone to the President at Jody's request. If you have any comments, please get them to me.

Rick Hutcheson

*I agree with
the basic idea.*

RJ

No Action needed

THE WHITE HOUSE
WASHINGTON

May 31, 1977

The Vice President
Midge Costanza
Stu Eizenstat
Hamilton Jordan
Bob Lipshutz
Frank Moore
Jack Watson

Re: Presidential Energy Information
"Hotline"

A shorter version of the attached memorandum concerning the "Hotline" has already gone to the President at Jody's request. If you have any comments, please get them to me.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

Send out to senior
staff w/ a note
from me that a
shorter version has
already gone to The
Pres. at Today's request.
If you have any
comments - please get
them to me. Rich

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR DISCUSSION AND COMMENT

TO: MIDGE COSTANZA
BARRY JAGODA
JODY POWELL
ROBERT LIPSHUTZ
FRANK MOORE
JACK WATSON
HAMILTON JORDON

FROM: JAMES R. SCHLESINGER

SUBJECT: Presidential Energy Information "Hotline"

Premise:

1. Due to the complicated and voluminous nature of the National Energy Act, there exists a good deal of misinformation and misunderstanding of the Act's intent and content.
2. The average American citizen has, to this point, derived the bulk of his/her information concerning the Act from media coverage. He/She is therefore most likely to make up his/her reaction to those parts of the Act which have received the most coverage, e.g., gas guzzler tax, standby gas tax.
3. Initial reaction to the concept of a National Energy has been overwhelmingly favorable.
4. It is to the advantage of the President to have an informational resource readily available to the public to answer inquiries regarding the impact of the Act on their lives.
5. That capacity does not currently exist.

Based on this reasoning, I would propose the following:

1. That a national toll-free energy hotline be established to provide this service to the public. In order that the service be a truly effective device for public outreach, and for it to receive prominent media coverage to stimulate public usage, it would be a project mandated by the President and operated out of the EOB.

2. That an interagency group composed of personnel drawn from FEA, ERDA, FHA, SBA, Treasury, Interior, State, HUD, HEW, EPA, and DOT be formed to handle what would basically be a "boiler room" operation. We anticipate an initial need for 10 operators per shift, utilizing 2 shifts per day beginning at 7:00 a.m., and continuing to 10:00 p.m. Personnel requirements will be adjusted according to the workload experienced.

3. In order to assure that the individuals detailed to this group would be of a high calibre, it is recommended that Jack Watson communicate the request to the various cabinet and agency heads. The personnel detailed would go through a one week training schedule, prepared by the Energy Policy Planning group, to become familiar with all aspects of the energy plan.

4. A fact sheet is being prepared with answers to frequently asked questions.

A follow-up mechanism would be designed so that questions not readily answerable by any given operator would be referred to a member of the Policy Planning group, or other designated individual, for response. Turnaround time for this exercise should be no more than 24 hours.

5. It is recommended that an appropriate form be designed for use by the operators to codify the demographic information and response on a given issue from each caller. That assembled information should be passed on to members of the White House staff for analysis.

Discussion

It is essential to the concept of this project that it have the imprimatur of the President. If it is perceived as simply an FEA effort for example, the response and level of exposure will be minimal. At the same time, it must be recognized that a certain risk is involved from political standpoint if the President takes the lead on this. It is possible that Congress will perceive this project as an attempt to "sell" the National Energy Act to the American people. As such, care must be taken both in the operation of the project boiler room and in the public presentation of the project to avoid any appearance that this is a lobbying effort. It must be clearly a public information outreach program designed to educate the public about energy goals, problems and conservation. The Justice Department and White House Counsel should be able

to work up an applicable definition of "lobbying" which can be given to the phone operators for guidance.

Obviously, the feedback gathered from this operation will be of interest to the White House from a political perspective, but it is essential that the operation in no way be construed as a lobbying function.

On this point, the selection of highly qualified personnel to operate the boiler room will be crucial to its success. The individuals should be selected on the basis of "telephone personality", capability and diplomacy, as well as their background in terms of analytical ability and interviewing and public speaking experience. Candidates will be thoroughly screened before being selected and put through a rather intensive training process.

Budget

The initial funding for the project will be for a 60-day period, with planned evaluation regarding continuation after 40 days of operation. While there are several options available as to the particular type of phone system to be used, and various price tags associated with each one, see attachment A, we feel strongly that a nationwide 800 number would be the most desirable system.

Based on an initial 60-day period of operation, the costs would break down as follows:

10 nationwide 800 lines @ 1700 per line per month	\$34,000.00
One time line installation charge	600.00
Instrument rental 82.50 per month	165.00
Headset rental 40.00 per month	80.00
4 local line rental 80 per month	160.00
Construction charge for operator booths	<u>2,500.00</u>
Total	\$37,505.00

These figures will be refined further. No additional cost for personnel is anticipated, since they would be detailed from the various departments involved.

Funding

It is recommended that the appropriations for this project come from the Office of the President, since it would be a "Presidential Energy Hotline" crossing agency lines. This would also avoid the possible congressional criticism were ERDA funds to be assigned.

Public Announcement

Past experience has indicated that an announcement by the President of such a project would result in an immediate glut of calls which would choke the system. The fallout resulting from thousands of people unable to reach an operator would have an adverse publicity effect on the program.

Several alternatives have been suggested:

- A. Allow groups such as the Governors' Conference and Mayors Conference to disseminate the information number on a local and statewide basis.
- B. Allow designated members of Congress to publicize the number in their home districts through press releases and newsletters. This approach might have the effect of shortstopping criticism.
- C. A low key release of the number through the White House Press Office.

This matter will require further discussion.

Time Frame

Assuming that a go-ahead on the project is given by May 20, personnel selection would begin on May 23, and be completed by May 26. The training period would be from May 26 to June 2.

The telephone company requires one week lead time to install equipment and could have the system on line by May 28. Allowing several days for testing and dry runs the entire system could be operational by June 2, with a tentative termination date of July 31.

CODES AND RATES - WASHINGTON

INTERSTATE	USOC			Per Month	One-Time Charge	
	Inward	2nd Access Line	Outward			

FULL BUSINESS DAY (Includes 240 hours of usage) (1)

Area 1	SKS	WXF	WFA	\$ 900.00	\$54.15	NRC	*
2	SLS	WXG	WFD	1,315.00	54.15	NRC	
3	SNS	WXH	WFF	1,570.00	54.15	NRC	
4	SOS	WXJ	WFG	1,645.00	54.15	NRC	
5	SRS	WXL	WFJ	1,675.00	54.15	NRC	*

Additional per hour rates as follows:

Area	1	2	3	4	5
	\$2.50	\$3.65	\$4.36	\$4.56	\$4.65

MEASURED TIME (Includes 10 hours of usage) (1)

Area 1	SAS	WXM	WMA	196.00	54.15	NRC	*
2	SBS	WXN	WMD	219.00	54.15	NRC	
3	SES	WXO	WMF	230.00	54.15	NRC	
4	SFS	WXP	WMG	239.00	54.15	NRC	
5	SJS	WXQ	WMJ	245.00	54.15	NRC	*

Additional per hour rates as follows:

Area	1	2	3	4	5
	\$14.70	\$16.43	\$17.25	\$17.93	\$18.38

STATES INCLUDED IN SERVICE AREAS:

Area 1	Area 2	Area 3
Delaware	Connecticut	Georgia
Maryland	New York (S.E. and W.)	Illinois
New Jersey	North Carolina	Indiana
Pennsylvania (E. and W.)	Ohio - S.	Kentucky
Virginia		Maine
West Virginia	Area 5	Massachusetts
	Arizona	Michigan
Area 4	California	New Hampshire
Alabama	Colorado	New York (N.E.)
Arkansas	Idaho	Ohio (N.)
Florida	Montana	Rhode Island
Iowa	Nebraska	South Carolina
Kansas	Nevada	Tennessee
Louisiana	New Mexico	Vermont
Minnesota	North Dakota	
Mississippi	Oregon	
Missouri	South Dakota	
Oklahoma	Texas	
Wisconsin	Utah	
	Washington	
	Wyoming	

(1) If the number of calls in any month exceeds the number of minutes in your package (14,400 for Full Business Day; 600 for Measured Time) then the total time will be increased to average one minute per call.

THE WHITE HOUSE
WASHINGTON
June 4, 1977

Max Cleland -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Secretary Califano
Stu Eizenstat
Frank Moore
Jack Watson

Re: Report on Veterans Adminis-
tration

THE WHITE HOUSE
WASHINGTON

ACTION
FYI

	MONDALE
	COSTANZA
X	EIZENSTAT
	JORDAN
	LIPSHUTZ
X	MOORE
	POWELL
X	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE



THE PRESIDENT HAS SEEN.

VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420



MEMORANDUM FOR:

1977 MAY 31 PM 8 13

The Honorable
Jimmy Carter
President
The White House

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To Max
J
cc: Califano

As requested, here is a brief review of the situation facing us today at the Veterans Administration together with actions taken and plans initiated to deal with problems encountered.

1. KEY PERSONNEL

Most of my top appointments have been made. The following staff are key:

* Mr. Rufus Wilson, a career employee with broad leadership background and a 24-year history with the VA, is my Deputy.

* Miss Dorothy Starbuck is Chief Benefits Director in charge of 58 Regional Offices and a budget of \$12 billion. She is a veteran of World War II with 31 years' service with the VA, and is now the highest ranking woman in the agency.

* Mr. John Leffler, formerly a specialist in planning and program management with the Office of the Joint Chiefs of Staff, is Associate Deputy Administrator.

* Mr. Maurice Cralle, a former Controller in the U. S. Army, will be Assistant Deputy Administrator, pending clearance by the Civil Service Commission.

* Mr. Minton Francis, a West Point graduate, and former Deputy Assistant Secretary of Defense for EEO, has been appointed Special Assistant on Minority Affairs. In the near future, I will establish an office of Human Goals elevating EEO and affirmative action programs to a top staff level, headed by Mr. Francis.

* Mr. Guy McMichael, a highly competent 36-year old attorney, and former General Counsel to the Senate Veterans' Affairs Committee, is my General Counsel and chief legislative liaison man. Improved congressional relations is a top priority.

2. CONGRESSIONAL RELATIONS.

(a) Problems with Congress arise from disputes over hospital locations and the general feeling by some Democrats that there should be more "spoils" now that the Administration has changed. Many in Congress are also reacting to educational institution pressure which are resisting the VA crackdown on educational over-payments, which are now at \$463 million.

*Continue
crackdown*

(b) The discharge upgrading policy (particularly of those in deserter status) has produced considerable discontent among veterans' organizations and within Congress. Concern principally revolves around making such veterans fully eligible for VA benefits (an individual veteran's GI Bill entitlements alone can total over \$13,000). Consequently, there is substantial, if not majority, sentiment in the authorizing Committees for the enactment of legislation which would either (i) deny VA benefits to some or all upgraded veterans, or (ii) require an independent decision by the VA in each case that the veteran is "worthy" of such benefits. Chief activists are Senator Thurmond and Congressmen Hammerschmidt, Montgomery, and Teague. The first year additional cost of the discharge upgrading is estimated at almost \$100 million but can be absorbed by the agency due to a greater than expected downturn in GI Bill enrollments. The VA has not yet felt any impact from this Administration's discharge upgrading program. To date, 257 applications have been received from those involved in President Ford's discharge upgrading program.

*Support
my
position*

3. MEDICAL CARE.

(a) Current Situation. The three-for-four staffing replacement formula has resulted in a reduction of over 1,500 hospital and clinic employees. The attrition rate continues. So far, we have managed to continue to provide the same service but with increasing strain and with a growing anxiety on the part of our managers and staff. There has been no comparable reduction in demand for services. (Since 1969 inpatient and outpatient workloads have increased 66% and 155%, respectively, while staff has increased 38%.) Upon advice of the Chief Medical Director, I exercised my authority to lift the freeze in our hospital at St. Albans, New York, where we were facing a critical period in opening a number of intermediate and nursing home care beds in renovated space. Similar problems are associated with the activation of the new hospital at Loma Linda, California, as well as at a number of other hospitals where new facilities are nearing completion.

*See
Bert
when
necessary*

Major construction and modernization of our hospitals is proceeding with no unexpected problems. A new replacement hospital in Los Angeles is now in use and we will activate replacement hospitals this year at Bronx, New York; Loma Linda, California; and Columbia, South Carolina, on schedule. In addition, a replacement hospital in Augusta, Georgia, is getting under construction and is on schedule.

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In 1976, President Ford approved the replacement of seven VA hospitals: Richmond, Virginia; Martinsburg, West Virginia; Bay Pines, Florida; Portland/Vancouver; Seattle, Washington; Little Rock, Arkansas; Baltimore, Maryland; and the construction of a new hospital at Camden, New Jersey. Even though these new hospitals will modernize and improve delivery of care, the total acute care beds in these eight hospitals will be reduced by 279, from existing levels. (Since Fiscal Year 1968 VA hospital beds operating have decreased from 112,394 to 93,020 this year; further reductions to 88,300 will be achieved by 1983.)

Increased efficiency of our hospitals is holding down episode costs, so that patients may be treated at a lower average rate. The inflationary impact continues, but, when adjusted to constant 1967 dollars, like services (both for inpatient and outpatient care) are being provided at reduced expenditures.

(b) Long Range Trends. Significant steps are being taken by the Veterans Administration both to provide more cost effective treatment and to refocus scarce resources on the medical needs of the service-connected veteran. Further expansion of "total care" to disabled veterans, such as provided by HMO's, including the provision of preventive health care authority, would aid in this process. While neither first rate nor cost effective medical care can be provided service-connected veterans without a sufficient base of non-service connected veterans as well (who typically have median incomes of \$6,000 and are without major health insurance coverage), increasing demands for services by the latter group has required (and Public Law 94-581 has directed) more stringent priorities which make it clear that available resources should be directed first to the medical needs of the service-connected veteran. Agitation in Congress and by veterans' groups can be expected as this priority to the needs of a service-connected veteran impacts on the non-service-connected veterans.

Although inpatient length of stay is declining—a 30.1% decline since 1973—the heavy influx of older and poorer veterans with increasing acute and chronic care needs will challenge our efforts in this area. The VA continues, however, its development of cost containment measures including better patient classification and scheduling, increased pace of care, extended workweek and increased use of outpatient therapy and alternatives to hospital care. A comparison of the 1974 average daily VA patient beneficiary load with that of today, for example, reveals that the percentage of VA patients in hospitals declined from 49.4% to 43.4% while outpatient care increased from 30.6% to 37.3%. 50% of VA's bed days in Medicine and Surgery, however, are utilized by 11% of the VA beneficiary care load indicating the large number of patients with serious chronic disease.

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Centralized approval of major equipment acquisition, together with utilization standards review, and procurement regulations which seek the most economical source available, are also aiding in our efforts in cost containment. Further emphasis on regional allocation of specialized resources should reduce cost as well as provide needed services to medically underserved areas of the country. Finally, we continue to plan for and achieve zero growth in energy (a significant factor in operating 171 hospitals) as well as seek utilization of alternative health care personnel as ways of containing growth in the VA health care budget during a period of increasing demand for services.

4. G.I. BILL.

G.I. Bill enrollment continues to decline at a rate greater than previously expected: Almost 580 million was dropped from this year's budget. Projections for FY 1978 and outward have been accordingly reduced. Training totals for the first half of FY 77 average just about 1/3 lower than the same months for FY '76. Recent statutory and administrative practices are slowing the establishment of new overpayments. *oh*

5. VET UNEMPLOYMENT.

Higher unemployment rates among veterans and failure during the last five years to implement fully Administration promises and provisions of law to deal with the problem of unemployment present a potential liability for this Administration. Although principal job assistance responsibility is vested with the Labor Department, VA is attempting to help by:

- * Furnishing information and data that will assist in identifying and tracking disabled and unemployed veterans;
- * Mailing notices of job opportunities and rights to disabled veterans with their compensation checks;
- * Training of those hired under the Labor Department's Disabled Veteran Outreach Program (DVOP);
- * Utilizing DVOP's and others at Veterans Assistance Centers in VA's Regional Offices to help provide one-stop service for the veteran; and
- * Identifying employers having jobs or training opportunities for veterans.

6. PENSIONS.

The VA operates an extensive income maintenance program for needy wartime service veterans who are totally disabled from non-service-connected causes. The required disability finding is presumed for veterans who are 65 or older, and need is the only test. Lesser assistance is authorized for survivors of such veterans. Pension rates vary from \$60 a year to \$2,220 for a single

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veteran (\$2,508 for a veteran with three dependents) plus additional allowances for those who are housebound or are in need of aid and attendance. This year the Veterans Administration will pay \$3.1 billion to 2.3 million veterans and survivors.

In the past there has been a recognition, both by the Administration and by many in Congress (particularly the Senate), that the current system contains a number of inequities, anomalies, and inconsistencies which prevent it from operating in the manner intended by law. Exclusions of certain types of income from "countable income" in determining a veteran's right to pension produces uneven results, with many veterans drawing pensions who are not really in need, or are drawing more pension than those with greater real need. At the same time basic assistance provided for many veterans, particularly those at the lowest end of the income scale, is considerably below poverty level. Consequently, there is a need to restructure the pension system to ensure that it is a true need based system with available resources directed to those with the greatest need. This problem is compounded by pressure from certain veterans' groups to provide service pension with no relationship to need, and by the increasing average age of the World War II veteran, which is currently 56.6 years of age. The number of veterans 65 years or older will triple by 1990 to almost 8 million.

In light of the above, the Veterans Administration is, pursuant to direction of Public Law 94-432, thoroughly studying the pension program and is gathering information to assure a more equitable system which (a) affords a level of income for eligible veterans at or above the national minimum standard of need; (b) treats similar circumstanced pensioners alike; and (c) provides the greatest amount of assistance to those with the greatest amount of need.

7. ADMINISTRATION GOALS.

With respect to the President's goals, the VA is actively participating in the Administration's reorganization and management improvement efforts both through internal analysis and through cooperation with other agencies. Specifically, it is planned to activate an Office of Inspector General in the VA in order to provide more effective monitoring of VA programs. Other internal initiatives include the addition of specialized expertise within the agency to facilitate decision-making and coordination agency-wide.

Major emphasis is being placed on long-range planning.

* We have instituted procedures to limit perks. First class air travel has been severely curtailed, with approval required from the Administrator or Deputy Administrator. In addition, the position of chauffeur to the Administrator has been eliminated and is being replaced by on-call drivers who drive not only the Administrator but anyone else in the agency who needs transportation when the car assigned to the Administrator is not being used by him.

*Be
strict*

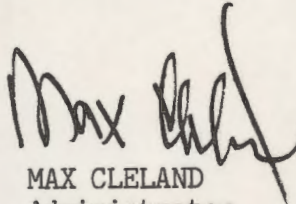
* Currently we are working with OMB to accomplish a reduction in Inter-agency Advisory Committees as well as assessing the applicability and value of internal VA committees.

* As a result of the President's March 14 Cabinet meeting where agencies were instructed to begin monitoring the number of consulting firms hired under contracts to do work for their agencies, we have looked into our situation and have adopted an appropriate monitoring process for approval of personal service contracts.

*Eliminate
all
possible*

* The VA's program in energy conservation is recognized as outstanding throughout the Nation's community. The Federal Energy Administration has asked us to prepare the guidelines for all Federal hospitals to comply with the President's Executive Order "Relating to Energy Management in the Federal Government." Coordination will be effected with other Federal agencies who operate hospital facilities in developing appropriated guidelines.

* We are working to combine zero-base budgeting, our five-year plan, management by objectives, review and analysis, and position allocation management, into a single, unified, system of financial management which ultimately results in an approved VA portion of the Federal Budget.


MAX CLELAND
Administrator

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Cabinet

6/5/77

THE WHITE HOUSE
WASHINGTON

- > World hunger - Roy Thosterman
- 3619 - Ros's trip
- > Juanita. Cyber 76 comp (CDC)
- > Conventions/conferences
 - Eagleton/Town - Flood Plain - Housing (Vote?)
- > Cigarette warning on Tab
- > ILO - withdraws?
 - Customs mail openings 1/4000
- > First class air travel?
- > Micky Barna - "Mr Untouchable"
- > My '76 NJ speech on Mid East
 - Non fuel mineral policy
- > Morris Dees - Peace Corps
 - Newspapers Sun a.m. Labor
- > Announcements - HUD-OEO-Defense
- > Speaker O'Neill
- > Wed a.m. - Cong mty

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— THE WHITE HOUSE —
— WASHINGTON —

- Fishermen xfer to foreign flag
- Many ships built in US yards?
- = Civil aviation - US/UK
- 9-15% doubtful wells - Alaska pipe
- Air deregulation - prospects A
- DoT reorg - less asst sec's -
- = GATT - Cong participation
- = DoE = 3 mos: FPC xfer ok
- = FMA - Bd inc. \$35 bl.
- Homosexual occu of pub housing
- Strip mine bill - good shape
- CIEC
- Turkey
- Belgrade
- > — Ros Trip
-

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